

III.

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**Relative to the amount of Payments to be effected by
Germany under Reparations Account.**

VOL. I.

(May 1, 1921—July 1, 1922.)



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1.

**SCHEDULE OF PAYMENTS PRESCRIBING THE TIME
AND MANNER FOR SECURING AND DISCHARG-
ING THE ENTIRE OBLIGATION OF GERMANY
FOR REPARATION UNDER ARTICLES 231, 232
AND 233 OF THE TREATY OF VERSAILLES.**

COVERING LETTER.

No. 13/279.

Paris, May 5, 1921.

The Reparation Commission.
To the Kriegslastenkommission.

The Reparation Commission has the honour to notify to the German Government, in the enclosed document, the Schedule of Payments prescribing the time and manner for securing and discharging the entire obligation of Germany for reparation under Articles 231, 232 and 233 of the Treaty of Versailles.

(Signed) DUBOIS.
JOHN BRADBURY.
SALVAGO RAGGI.
DELACROIX.

SCHEDULE OF PAYMENTS.

Prescribing the time and manner for securing and discharging the entire obligation of Germany for reparation under Articles 231, 232 and 233 of the Treaty of Versailles.

The Reparation Commission has, in accordance with Article 233 of the Treaty of Versailles, fixed the time and manner for securing and discharging the entire obligation of Germany for Reparation under Articles 231, 232 and 233 of the Treaty—as follows:

This determination is without prejudice to the duty of Germany to make restitution under Article 233 or to other obligations under the Treaty.

ARTICLE 1.

Germany will perform in the manner laid down in this Schedule her obligation to pay the total fixed in accordance with Articles 231, 232 and 233 of the Treaty of Versailles by the Commission, viz., 132 milliards of gold marks less:

(a) The amount already paid on account of Reparation, (b) sums which may from time to time be credited to Germany in respect of

State properties in ceded territory, etc., and (c) any sums received from other enemy or ex-enemy Powers in respect of which the Commission may decide that credit should be given to Germany, plus the amount of the Belgian debt to the Allies, the amounts of these deductions and addition to be determined later by the Commission.

ARTICLE 2.

Germany shall create and deliver to the Commission in substitution for bonds already delivered or deliverable under paragraph 12 (c) of Annex II of Part VIII (Reparation) of the Treaty of Versailles the bonds hereafter described.

A.—*Bonds for an amount of 12 milliards gold marks.*

These bonds shall be created and delivered at latest on July 1, 1921. There shall be an annual payment from fund to be provided by Germany as prescribed in this Schedule in each year from May 1, 1921, equal in amount to 6 per cent. of the nominal value of the issued bonds, out of which there shall be paid interest at 5 per cent. per annum payable half-yearly on the bonds outstanding at any time, and the balance to sinking fund for the redemption of the bonds by annual drawings at par.

These bonds are hereinafter referred to as bonds of Series (A).

B.—*Bonds for a further amount of 38 milliards gold marks.*

These bonds shall be created and delivered at the latest on November 1, 1921.

There shall be an annual payment from funds to be provided by Germany as prescribed in this Schedule in each year from November 1, 1921, equal in amount to 6 per cent. of the nominal value of the issued bonds out of which there shall be paid interest at 5 per cent. per annum payable half-yearly on the bonds outstanding at any time and the balance to sinking fund for the redemption of the bonds annual drawings at par.

These bonds are hereinafter referred to as bonds of Series (B).

C.—*Bonds for 82 milliards of gold marks, subject to each subsequent adjustment by creation or cancellation of bonds as may be required under Article (I).*

These bonds shall be created and delivered to the Reparation Commission, without coupons attached, at latest on 1st November, 1921, they shall be issued by the Commission as and when it is satisfied that the payments which Germany is required to make in pursuance of this schedule are sufficient to provide for the payment of interest and sinking fund on such bonds. There shall be an annual payment from funds to be provided by Germany as prescribed in this schedule in each year from the date of issue by the Reparation

Commission equal in amount to 6 per cent. of the nominal value of the issued bonds out of which shall be paid interest at 5 per cent. per annum payable half-yearly on the bonds outstanding at any time and the balance to sinking fund for the redemption of the bonds by annual drawings at par.

The German Government shall supply to the Commission coupon-sheets for such bonds as and when issued by the Commission.

These bonds are hereinafter referred to as bonds of Series (C).

ARTICLE 3.

The bonds provided for in Article 2 shall be signed German Government bearer bonds, in such form and in such denominations as the Commission shall prescribe for the purpose of making them marketable, and shall be free of all German taxes and charges of every description present or future.

Subject to the provisions of Articles 248 and 251 of the Treaty of Versailles, these bonds shall be secured on the whole of the assets and revenues of the German Empire and the German States, and in particular on the assets and revenues specified in Article 7 of this schedule. The Service of the bonds of Series (A), (B) and (C) shall be a first, second and third charge respectively on the said assets and revenues and shall be met by the payments to be made by Germany under this schedule.

ARTICLE 4.

Germany shall pay in each year until the redemption of the bonds provided for in Article 2 by means of the sinking funds attached thereto :—

- (1) A sum of 2 milliard gold marks ;
- (2) (a) A sum equivalent to 25 per cent. of the value of her exports in each period of 12 months starting from May 1, 1921, as determined by the Commission,
or
(b) Alternatively an equivalent amount as fixed in accordance with any other index proposed by Germany and accepted by the Commission ;
- (3) A further sum equivalent to 1 per cent. of the value of her exports as above defined or alternatively an equivalent amount fixed as provided in (b) above.

Provided always that when Germany shall have discharged all her obligations under this schedule, other than her liability in respect of outstanding Bonds, the amount to be paid in each year under this paragraph shall be reduced to the amount required in that year to meet the interest and sinking fund on the bonds then outstanding.

Subject to the provisions of Article 5 the payments to be made in respect of paragraph (1) above shall be made quarterly on or before January 15, April 15, July 15, and October 15 each year and the payments in respect of paragraph (2) and (3) above shall be made quarterly on or before February 15, May 15, August 15 and November 15, and calculated on the basis of the exports in the last quarter but one preceding that quarter, the first payment to be made on or before November 15, 1921, to be calculated on the basis of the exports in the three months ending July 31, 1921.

ARTICLE 5.

Germany shall pay within 25 days from this notification one milliard gold marks in gold or approved foreign currencies or approved foreign bills or in drafts at three months on the German Treasury endorsed by approved German banks and payable in pounds sterling in London, in francs in Paris, in dollars in New York or any currency in any other place designated by the Commission. These payments will be treated as the two first quarterly instalments of the payments provided for in Article 4 (1°).

ARTICLE 6.

The Commission will within 25 days from this notification, in accordance with paragraph 12 A (d), Annex II of the Treaty as amended, establish the special Sub-Commission to be called the Committee of Guarantees.

The Committee of Guarantees will consist of representatives of the Allied Powers now represented on the Reparation Commission, including a representative of the United States of America in the event of that Government desiring to make the appointment.

The Committee shall co-opt not more than three representatives of nationals of other Powers whenever it shall appear to the Commission that a sufficient portion of the bonds to be issued under this schedule is held by nationals of such Powers to justify their representation on the Committee of Guarantees.

ARTICLE 7.

The Committee of Guarantees will be charged with the duty of securing the application of Articles 241 and 248 of the Treaty of Versailles.

It shall supervise the application to the service of the Bonds provided for in Article 2 of the funds assigned as security for the payments to be made by Germany under Article 4. The funds to be so assigned shall be :

- (a) The proceeds of all German maritime and land Customs duties, and in particular the proceeds of all Import and Export duties;

- (b) The proceeds of a levy of 25 per cent., on the value of all exports from Germany, except those exports upon which a levy of not less than 25 per cent. is applied under the legislation referred to in Article 9;
- (c) The proceeds of such direct or indirect taxes or any other funds as may be proposed by the German Government and accepted by the Committee of Guarantees in addition to or in substitution for the funds specified in (a) or (b) above.

The assigned funds shall be paid to accounts to be opened in the name of the Committee and supervised by it, in gold or in foreign currencies approved by the Committee.

The equivalent of the 25 per cent. levy referred to in paragraph (b) shall be paid in German currency by the German Government to the exporter.

The German Government shall notify to the Committee of Guarantees any proposed action which may tend to diminish the proceeds of any of the assigned funds and shall, if the Committee demand it, substitute some other approved funds.

The Committee of Guarantees shall be charged further with the duty of conducting on behalf of the Commission the examination provided for in paragraph 12 (b) of Annex II to Part VIII of the Treaty of Versailles and of verifying on behalf of the Commission, and if necessary of correcting, the amount declared by the German Government as the value of German exports for the purpose of the calculation of the sum payable in each year or quarter under Article 4 (2) and the amounts of the funds assigned under this Article to the service of the Bonds.

The Committee shall be entitled to take such measures as it may deem necessary for the proper discharge of its duties.

The Committee of Guarantees is not authorised to interfere in German administration.

ARTICLE 8.

In accordance with paragraph 9 (2) of Annex II as amended Germany shall on demand, subject to the prior approval of the Commission, provide such material and labour as any of the Allied Powers may require towards the restoration of the devastated areas of that Power, or to enable any Allied Power to proceed with the restoration or development of its industrial or economic life. The value of such material and labour shall be determined in each case by a valuer appointed by Germany and a valuer appointed by the Power concerned, and, in default of agreement, by a referee nominated by the Commission.

This provision as to valuation does not apply to deliveries under Annexes, III, IV, V, and VI to Part VIII of the Treaty.

ARTICLE 9.

Germany shall take every necessary measure of legislative and administrative action to facilitate the operation of the German Reparation Recovery Act, 1921, in force in the United Kingdom, and of any similar legislation enacted by any Allied Power, so long as such legislation remains in force. Payments effected by the operation of such legislation shall be credited to Germany on account of the payments to be made by her under Article 4 (2).

The equivalent in German currency shall be paid by the German Government to the exporter.

ARTICLE 10.

Payments for all services rendered, all deliveries in kind and all receipts under Article 9 shall be made to the Reparation Commission by the Allied Power receiving the same in cash or current coupons within one month of the receipt thereof, and shall be credited to Germany on account of the payments to be made by her under Article 4.

ARTICLE 11.

The sum payable under Article 4 (3) and any surplus receipts by the Commission under Article 4 (1) and (2) in each year, not required for the payment of interest and sinking fund on bonds outstanding in that year, shall be accumulated and applied so far as they will extend, at such times as the Commission may think fit, by the Commission in paying simple interest not exceeding $2\frac{1}{2}$ per cent. per annum, from May 1, 1921, to May 1, 1926, and thereafter at a rate not exceeding 5 per cent. on the balance of the debt not covered by the bonds then issued.

The interest on such balance of the debt shall not be cumulative. No interest thereon shall be payable otherwise than as provided in this paragraph.

ARTICLE 12.

The present schedule does not modify the provisions securing the execution of the Treaty of Versailles, which are applicable to the stipulations of the present schedule.

NOTES ADDRESSED TO THE GERMAN GOVERNMENT BY THE COMMITTEE OF GUARANTEES AFTER ITS FIRST VISIT TO BERLIN.

COVERING LETTER.

The Committee of Guarantees.

To the Reichs Chancellor

(Dr. Wirth),

Berlin.

SIR,

Berlin, June 28, 1921.

The Committee of Guarantees has examined the conditions under which it will ensure the execution of the clauses of the Schedule of Payments notified by the Reparation Commission to the German Government on May 5, 1921.

It has moreover considered the proposals, suggestions and remarks submitted by the German Government in regard to the application of the provisions of Articles 4 and 7 of the Schedule of Payments.

The Committee of Guarantees has the honour to submit herewith five notes containing the decisions that it has this day adopted, dealing respectively with the following subjects :—

Note No. 1.—General principles.

Note No. 2.—Interpretation of the word "Exports" and replacement of the "Exports" index.

Note No. 3.—Levy on exports.

Note No. 4.—Customs.

Note No. 5.—Organisation of the control.

The Committee is willing to supply the German Government with any supplementary information that the latter may desire. Such information may be given verbally up to noon, Wednesday June 29, 1921. Since the Committee is obliged to leave Berlin at 2 p.m. on this day, any communications that the German Government may have to make subsequent to this date must be transmitted through the Chairman of the Delegation of the Committee of Guarantees, No. 9, Prinz Albrecht Strasse, Berlin.

We have the honour, &c.,

(Signed) MAUCLERE.
BEMELMANS.
d'AMELIO.
LEITH ROSS.

NOTE No. 1.

General Principles.

The Committee of Guarantees.

To the Reichs Chancellor
(Dr. Wirth),
Berlin.

June 28, 1921.

The Committee of Guarantees has given careful consideration to the observations and propositions communicated to it, both orally and in writing, by the Representatives of the German Government, relative to the execution of the Schedule of Payments.

The Committee fully appreciates the force of the arguments presented to it with a view to substituting for the resources specified in paragraphs (a) and (b) of Article 7 of the Schedule of Payments certain other resources, but if the Committee is inclined to take account of these arguments and even proceed up to a certain point and under certain reserves along the lines of policy suggested by the German Government, as that Government will learn from the several special Notes dealing with the particular questions raised which will be forwarded at the same time as the present letter, the Committee does not think that it can properly at the present stage agree to such substitution, and, in particular, accept as guarantees at the present date resources which still exist only in the form of proposals. The Committee feels it necessary for the present to base the execution of the Schedule of Payments primarily on the resources specified in paragraphs (a) and (b) of Article 7 mentioned above, and consequently the alternative revenues proposed by the German Government only require to be considered in so far as these resources are not sufficient in themselves, and without addition, to guarantee the full obligations of Germany.

The present letter deals separately :—

(A) With the obligations of Germany for the year 1921-1922.

(B) With the obligations of Germany during the course of future years.

This distinction is due to the fact that in the course of the first year an instalment of 1 milliard on account of the fixed annuity is secured by special means and that the first instalment of the variable annuity is to be effected only on November 15; but in both cases the estimates must be based on a series of assumptions.

The obligations specified in Article 4 of the Schedule consist (a) of *fixed* quarterly payments, each of 500 million gold marks, and (b) of variable quarterly payments equivalent to 26 per cent. of the value of German exportations. The Committee is setting up an organisation to enable it as soon as possible to satisfy itself as to the amount of the German exportations, but provisionally, and subject to any rectification that it may hereafter judge necessary, the Committee is willing to base its calculations of the value of

exportations on the estimate of the German Government for the past year, *i.e.*, to assume that the total value of the German exportations will be 5 milliard gold marks. The variable annuity, on this assumption, amounts to 325 million gold marks per quarter.

Further, the Committee provisionally and with all reserve admits the estimate arrived at after discussion with the representatives of the German Government that the value of the deliveries in kind for the current year will amount approximately to 1,200 million gold marks.

In view of the fact that legislation on the lines of the Reparation (Recovery) Act is at present only in force in the United Kingdom, the Committee is not able to accept the estimate of 260 million gold marks suggested by the German Government for the receipts under this head, but it is prepared provisionally to estimate these receipts at 150 million gold marks.

The Committee is also prepared to admit under the same reserves the estimate of 200 million gold marks as the probable yield of the Customs revenues.

Finally, the 25 per cent. levy on the value of exports specified in Article 7 would, on the same assumption as to the value of exports taken above, produce 1,250 million gold marks per annum, *less* the estimated Reparation (Recovery) Act receipts, *i.e.*, 1,100 million gold marks per annum, or 275 million gold marks per quarter.

A.—*The Year 1921-1922.*

For the current year, the obligations prescribed by the Schedule of Payments are (a) the four fixed instalments of 500 million gold marks and (b) the two quarterly instalments of the variable annuity due November 15, 1921, and February 15, 1922, provisionally estimated as shown above at 325 million gold marks each. The total obligations for the year to April 30, 1922, amount therefore to 2,650 million gold marks.

Of these obligations :—

- (a) 1,000 million gold marks is to be covered by the payment to be effected under Article 5 of the Schedule of Payments.
- (b) 1,200 million gold marks will, under the assumption made above, be covered by the value of deliveries in kind.
- (c) 150 million gold marks may be obtained from the Reparation (Recovery) Act.

That is, a total amount of 2,350 million gold marks may provisionally be regarded as already covered and only the balance of 300 million gold marks required to be secured by the resources specified in Article 7.

Accordingly, the Committee considers that, in accordance with the proposals set out in the letters referred to above, the payment to it of the Customs duties should take effect as from November 15 next and the payment of the levy of 25 per cent. on exports

should take effect from December 15 next, and it requests the German Government to make all the necessary arrangements to this end.

Subject to the above estimates being realised, it will probably not be necessary to resort in the course of the year 1921-1922 to any resources other than those specified in Article 7 of the Schedule of Payments.

B.—*Future Years.*

The Committee of Guarantees must, however, point out that the above result is due to the special conditions in which Germany has to meet her debt during the course of the first year. The situation will be different in future years, and it is desirable therefore to set out at once the conditions under which the Committee of Guarantees intends to avail itself of the resources which have been proposed by the German Government.

It is, of course, impossible at the moment to estimate with exactitude the amount of the obligations with Germany in a future year. But, as an example, and subject to all the reserves applicable to the estimates for the year 1921-1922, the account for the year might be presented as follows :—

The total obligations in millions of gold marks may be stated as :—

Fixed Annuity	...	...	...	2,000
Variable Annuity	...	...	...	1,300
Total	...	...	...	3,300

against which there should be covered by :

Deliveries in kind	...	...	...	1,200
--------------------	-----	-----	-----	-------

Reparation (Recovery) :

Receipts and 25 per cent. levy on exports	...	...	...	1,250
Customs revenues	...	...	...	200

Total	...	...	...	2,650
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which would leave a deficit of	...	...	...	650
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This deficit of 650 million gold marks requires to be covered by new assigned revenues in addition to those specified in paragraphs (a) and (b) of Article 7 of the Schedule of Payments.

The resources proposed by the German Government, viz. :

Tax on dividends and interest,
Tax on sugar,
Tax on tobacco,

Brandy monopoly,
Tax on coal,
Turnover tax (Umsatzsteuer),

should, according to the estimates of the German Government, give a yield of 1,666 million gold marks, which the Committee of Guarantees consider should be reduced to 1,300 million gold marks.

The resources offered by the German Government are therefore approximately double the amount of the sums due from Germany which require to be guaranteed. The Committee of Guarantees would, therefore, be ready to accept for this amount the payment to it of the equivalent in foreign exchanges of 50 per cent. of the yield of the above taxes, the balance being provisionally left at the disposal of the German Government.

It should be clearly understood that, in the event of the yield of these taxes bringing in insufficient to provide the sums above estimated, or in the event of the other resources on which the Committee has based its estimate of the amounts required to be covered by assigned revenues proving insufficient, the Committee expressly reserves the right at any moment by written notice to Germany to require the payment to it of a larger percentage of the receipts from any or all of these assigned revenues so as to cover the deficit. On the other hand, should the receipts from these revenues exceed the amounts required by the Committee as a guarantee, the Committee will be prepared to reduce the percentage payable to it.

The arrangements for the payment to the Committee of the assigned revenues will, therefore, provisionally be as follows :

- (a) As from November 15, 1921, the Committee will receive the produce of the Customs Duties.
- (b) As from December 15, 1921, it will receive the proceeds of the 25 per cent. levy on exports in the manner explained in the attached letters which deal with these specific resources.
- (c) As from May 1, 1922, the Committee will, in addition, receive 50 per cent., or such other percentage as it may hereafter determine to be necessary, of the produce of the additional assigned revenues proposed by the German Government and accepted by the Committee. The Committee reserves the right however to require their payment from an earlier date if necessary.

The Committee must add that the rights conferred on the Reparation Commission by Article 248 of the Treaty of Versailles, with the execution of which the Committee is entrusted, remain intact, and that the special assignment of certain taxes to the service of obligations must not be interpreted as implying a limitation of the general privilege provided by the said Article 248, in

virtue of which the service of the obligations, as it is contemplated in the Schedule of Payments, must in any case be ensured by the German Government, whose duty it is, if need be, to supplement the sum necessary to this service, by means of its general resources if the proceeds of the assigned taxes prove insufficient.

The Committee of Guarantees recognises, as the German Government has pointed out to it, the great importance of the stabilisation of the exchange to the execution of its obligations towards the Allies.

Apart from the economic conditions which might cause an improvement in the present situation, there are two factors affecting the stabilisation of the mark which depend above all on the German Government: the equilibrium of the Budget and the cessation of uncovered note issues. The stabilisation of the exchange will be impossible as long as the German Government has not balanced its budget through the drastic reduction of its expenses as well as the increase of its normal resources.

The Committee of Guarantees does not overlook the difficulties with which the German Government is faced, but it thinks that the budgetary situation called for a more radical reform than that embodied in the plans which have been communicated to it. It is for the German Government to find the means to realise such a reform, but it is evident that the provisions set out above will require to be modified if a programme of reform corresponding to the gravity of the situation cannot be carried into effect.

To resume, the Committee of Guarantees formally states that it can only consent to the substitution of other resources for the funds specified in paragraphs (a) and (b) of Article 7 of the Schedule of Payments when it is definitely established that the taxes offered to it as guarantee by the German Government will furnish the necessary funds for the service of the annuities. The Committee requests the German Government, therefore, to take the necessary steps to ensure that the Guarantees contemplated in paragraphs (a) and (b) of Article 7 may be in a position to come into operation at the dates provisionally fixed above.

At the same time, however, the Committee of Guarantees is at once ready to assist the German Government in its task by giving to it certain facilities which will be specified in the notes of to-day's date to which allusion is made in the first part of the present letter.

(Signed) MAUCLERE.
BEMELMANS.
d'ANELIO.
LEITH ROSS.

NOTE No. 2.

*Interpretation of the word "Exports" ⁽¹⁾
and
Replacement of the "Exports" Index.*

The Committee of Guarantees.

To Reichs Chancellor
(Dr. Wirth),
Berlin.

June 28, 1921.

The Committee of Guarantees has given the most serious attention to the observations presented by the German Government with regard to Article 4 of the Schedule of Payments of May 5, 1921. These observations fall into two distinct categories; the first concern the interpretation to be given to the word "exports" in the Article quoted; the second relate to the choice which has been made of exports as an index with a view to fixing the payments to be made by Germany.

⁽¹⁾ On August 23, 1921, the Reparation Commission, in the letter given below, interpreted the term "exports" employed in Article 4 of the Schedule of Payments.

"In its letter of May 25, 1921, the Kriegslastenkommission asked the Reparation Commission to give an interpretation of the term 'exports' employed in Article 4 of the Schedule of Payments. At its meeting of June 14, 1921, the Reparation Commission instructed the Committee of Guarantees to profit by its visit to Berlin to learn the views and objections of the German Government on this subject, so that the Reparation Commission might give a ruling on the question after examining all relevant matter.

"By its letter of July 21, 1921, the Committee of Guarantees sent a report to the Reparation Commission relating the observations submitted in this connection by the German Government, and hence the question now arises whether the Reparation Commission should apply to the term 'exports' in Article 4 of the Schedule of Payments the definition of actual commerce (Gesamteigenhandel) given it by the Germans in their statistics before and after the war, in 1913 as well as in 1920, or whether this term should be given a more restricted interpretation, principally based upon the extent to which a given export may be considered as a source of wealth to the exporting country.

"The difference is important since, if the second proposal be adopted, the figure of 10,892 million gold marks indicated by the German Government in its export statistics for 1913 would be reduced to 7,466 million gold marks, and would inevitably be reduced still further by the logical application of the principles laid down by the second definition.

"The Reparation Commission, although aware that all Germany's exports are not a source of wealth to her, especially not to the extent of 26 per cent., does not feel for the following reasons that it can give any other interpretation of the term 'exports' than the one given by the German Government in its statistics.

"(1) When the Schedule of Payments was adopted on May 5, 1921, the Reparation Commission was endeavouring to regulate the methods by which Germany could discharge her Reparation Debt. It wished

I. Article 4 of the Schedule of Payments provides that Germany shall pay each year, in addition to a fixed sum of 2 milliards, a sum which the Reparation Commission shall determine as the equivalent of 26 per cent. of the value of German exports during each period of 12 months commencing from May 1, 1921.

The German Government has asked what meaning must be given to the word "exports," as the value of these exports must serve as the basis for calculating the variable payments to be effected each year.

The German Government has declared in the first instance that in its opinion neither the statistics of "general commerce" nor those of "effective commerce" (*Gesamteigenhandel*) should be taken as a basis of the value of exports. It thus requests the exclusion from exports, for the purpose of calculating the payments, on the one hand of merchandise passing through Germany in direct transit and on the other hand of merchandise passing through Germany by indirect transit, *i.e.*, foreign merchandise placed in bond in Germany and subsequently re-exported under control of the Customs, and the merchandise which leaves Germany to be transformed abroad and to be subsequently re-imported into Germany.

to regulate the issue of part of the bonds representing this debt according to the indications of an index figure chosen by it. In adopting this index figure it took as its basis the figures of the German statistics, adapted to the increased prices and the revival of German industry. If any significance other than that which served for the calculations which led to the choice of the index at the time of its adoption were attached to the term 'exports,' this would render meaningless the basic figures and the index itself, and would moreover, by the consequent reduction on the variable annuity, postpone indefinitely the service of the Debt in its entirety and consequently its settlement.

"(2) The objections brought forward against this interpretation arise out of a misconception of the guiding principle of the Schedule of Payments. The Reparation Commission did not intend the Reparation Debt to be paid out of the profits which German industry might make on its exports. This mistaken idea is due to a confusion between Article 4 which adopts an index, and Article 7 which imposes a guarantee by a levy on exports. The Schedule of Payments, by a necessary corollary imposes on the German Government the repayment of this levy to the exporters.

"(3) It may doubtless be maintained that the index thus defined resulted in a contradiction between the interests of the exporters and the mass of the German taxpayers, it being to the interest of the latter to reduce the variable annuity and postpone the payment of the Reparation Debt, whereas the interest of the former lies in developing their business to increase their profits.

"These disadvantages may be such as to lead the German Government to study and propose new indices or make other plans for discharging the Debt, but they cannot induce the Reparation Commission to falsify the index which served as a basis for its calculations and economic forecasts."

The German Government, which thus considers that only "special commerce" should be taken into account, next asks that certain categories of merchandise should also be excluded from this, viz. :

- (1) The re-export of imported merchandise (particularly raw materials) which are re-exported under free commercial conditions without having been transformed and without having been placed under Customs control. The German Government declares that early in the year 1921 it presented a draft law designed to establish the distinction between these and other forms of merchandise.

- (2) "Finishing trade" (Veredelungsverkehr) :

It appears to result from the observations presented by the German Government both with regard to choice of exports as index and also with regard to the interpretation of the word "exports" that the German Government requests the exclusion of "finishing trade" understood in the wider sense given to that term, whether in its economic meaning or in its technical meaning given to it by the German Customs legislation, i.e., whether it is carried out for the account of a German or for the account of a foreign subject, whether it consists in a slight or in a substantial transformation of the raw materials or of the semi-manufactured products imported into Germany with a view to re-exportation. The German Government appears, in effect, to express the view that there should be excluded from exports for the purpose of calculating the variable annuity to be paid by Germany, raw material imported from abroad which is exported from Germany whether in a raw form or transformed or under the form of manufactured products, or at least that there should be excluded from the sum of the exports, the sum representing the raw materials.

Moreover, with regard to frontier zone traffic, such as the exchange of coal between Holland and Germany, the export of German coal to Czecho-Slovakia compensated for by imports of English coal, exports of cereals from East Prussia compensated for by imports of cereals from the West, exports of wood from Baden compensated for by imports of wood from Lithuania, the German Government requests that the Reparation Commission shall only take account of the excess of the exports over the imports.

Finally, the German Government requests the Reparation Commission in valuing the exports for the purpose of applying Article 4 of the Schedule of Payments to exclude from them deliveries in kind claimed by the Allied Powers on Reparation Account, whether the price is fixed by the Reparation Commission or not.

On all these points the Committee of Guarantees, while taking careful note of the observations presented by the German Government must reply that they are outside its competence and that the

decision with regard to them belongs, according to the provision of Article 4 of the Schedule of Payments, to the Reparation Commission. The Committee can only therefore forward a report to the Commission on the questions raised by the German Government with regard to "exports."

II. The position is the same with regard to the choice of exports as an index with a view to fixing the payments to be made by Germany.

The German Government has explained that in its opinion the adoption of such an index would involve among its consequences a reduction in the imports of foreign merchandise, a disturbance in the international division of labour, which would risk the detachment of Germany from the economic life of the world and her return to a closed economic system (*Eigenwirtschaft*), and, finally, a diminution of Germany's credit which would injure the interests of the Allied Powers themselves.

The Committee of Guarantees fully appreciates the force of the observations presented by the German Government with regard to the adoption of exports as an index. But, as stated above, the question of the choice of the index is outside its competence. On this question, as on the interpretation to be given to the term "exports," the Committee can only transmit a report to the Reparation Commission, with whom the decision lies. Moreover, the Committee must observe to the German Government that, in accordance with the provision of Article 4 of the Schedule of Payments, it rests with Germany, and not with the Reparation Commission, to propose some other index in place of exports in order to determine the variable sum to be paid annually by the German Government.

The Committee of Guarantees believes it has summed up accurately the observations made by the German Government on the interpretation of the word "exports" mentioned in Article 4 of the Schedule of Payments, and on the possible replacement hereafter by some other index of the index based on exports provided by this Article. Should the German Government not agree with the construction thus put upon its observations, the Committee of Guarantees requests the German Government to inform the Reparation Commission.

(Signed)

MAUCLERE.
BEMELMANS.
d'AMELIO.
LEITH ROSS.

NOTE No. 3.

Levy on Exports.

The Committee of Guarantees.

To Reichs Chancellor
(Dr. Wirth),
Berlin.

June 28, 1921.

The German Government has explained to the Committee of Guarantees the economic and political difficulties which might result from a direct levy of 25 per cent. on the value of German exports.

The Committee appreciates the force of the observations put forward by the German Government. The Committee feels bound to point out, however, that the levy was suggested in the Schedule of Payment, not as in any sense a tax, but merely as a means by which the German Government could procure the foreign values necessary. The Committee would be glad to meet the wishes of the German Government by accepting alternative resources, if such resources could assure them of the foreign values required, but they have not yet been presented with any scheme which fulfils this condition. In the circumstances, they do not consider that they can properly renounce the levy on exports contemplated by Article 7 of the Schedule of Payments, and they must request the German Government to prepare with all possible care the measures necessary to make this levy operative.

The Committee, however, agrees that the actual operation of this system should be provisionally deferred, subject to the reserve stated hereinafter and to the following guarantees:—

For each quarterly payment, as fixed in the Schedule of Payments, the Committee will determine (subject to subsequent adjustments if necessary), at the beginning of the last month but one which precedes it, and on the basis of the value of the exports of the previous three monthly period, the sum represented in foreign currencies by 25 per cent. of that value, with a deduction of any levies which may have been made in the course of that three months in the importing countries by virtue of the legislation contemplated in Article 9 of the Schedule of Payments.

The German Government will pay this sum in advance in three instalments, as follows: the first one-third two months before, the second one-third one month before, and the balance on the quarterly date fixed by the Schedule of Payments.

For example, the payments falling due on November 15 of any year will be calculated, as is explained above, on the basis of the total of the three-monthly period, May, June, July of the same year; the first instalment of the sum to be paid will be remitted by the German Government at the latest on September 15, the second instalment on October 15, and the third on November 15.

As regards the current year, the Committee, for the present, is prepared to assume that the value of the deliveries in kind effected since May 1 last will be sufficient to cover the payment due on November 15 next, so that the above arrangement will apply first to the payment due on February 15 next and the first instalment will be payable on December 15.

The Committee of Guarantees expressly reserves to itself the right of having a system of direct levy put into operation at any moment, and particularly in case where one of these payments should not have been effected at the fixed date; the German Government, on its side, must formally undertake to accede without delay to a request which may be addressed to it to that end.

The Committee of Guarantees further declares that the above-mentioned decision does not free the German Government from obligation to notify to the Committee of Guarantees, in accordance with paragraph 8 of Article 7, any proposed action whose operation would have the effect of diminishing the receipts from the 25 per cent. levy if that measure was in fact put into operation.

(Signed) MAUCLERE.
BEMELMANS.
d'AMELIO.
LEITH ROSS.

NOTE No. 4.

Customs.

The Committee of Guarantees.

To the Reichs Chancellor

(Dr. Wirth),

Berlin.

June 28, 1921.

The German Government has explained to the Committee of Guarantees the difficulty in which it would be involved by the assignment of the Customs receipts (including exports as well as import duties) in guarantee of the execution of the Schedule of Payments of May 5, 1921, at a time when the tariffs are in a transitional stage.

This difficulty would result from the provisions of paragraph 8 of Article 7 of the Schedule of Payments, which require the German Government to notify to the Committee of Guarantees any proposal which might diminish the yield of the assigned resources and to substitute other resources agreed by the Committee in any case in which the Committee might so require because of such a proposal.

Consequently, the German Government requests authorisation from the Committee of Guarantees to substitute other resources for the proceeds of the Customs in accordance with the concluding words of paragraph (c) of Article 7 of the Schedule of Payments.

The Committee recognises the force of the observations made by the German Government and is prepared to take steps to avoid the inconvenience referred to. It does not appear to the Committee, however, that it is necessary, in order to attain the desired end, to abandon the assignment of the proceeds of the Customs as a guarantee of the obligations.

Accordingly, in order to leave the German Government the liberty of action which it requests for its Customs policy, the Committee of Guarantees, while maintaining the assignment of the Customs receipts as guarantees of the obligations, hereby renounces provisionally its right under paragraph 8 referred to above, to receive notice beforehand of any proposal affecting Germany's Customs policy. The obligation of the German Government will not extend beyond informing the Committee of Guarantees of the arrangement which it may make. This arrangement will, in the absence of any notification to the contrary, hold good until May 1, 1922, and may be renewed thereafter if the German Government so desires, but the Committee of Guarantees reserves the right to terminate it at any moment, if it considers it necessary.

Subject to this arrangement, which will leave the German Government liberty of action, the Customs receipts will constitute one of the revenues assigned to the service of the bonds. The payments of those receipts will start as from November 15 next, and will be effected monthly by means of payment in foreign currencies to be deposited at banks which the Committee of Guarantees will designate hereafter. These deposits will be held in trust until the dates when the payments become due, under the terms of Article 4 of the Schedule of Payments.

(Signed) MAUCLERE.
BEMELMANS.
d'AMELIO.
LEITH ROSS.

NOTE No. 5.

Organisation of the Control.

The Committee of Guarantees.
To the Reichs Chancellor
(Dr. Wirth),
Berlin.

28th June, 1921.

Article 7 of the Schedule of Payments stipulates that the Committee of Guarantees will be charged with the verification and, if necessary, the correction of the amount declared by the German

exports for the purpose of calculating the annuity provided for by Article 4, paragraph 2.

It stipulates, moreover, that the Committee will verify and, if need be, correct the amount of the resources assigned to the service of the bonds provided for by the aforesaid Article.

It is the duty of the Committee of Guarantees to take the necessary measures with a view to the eventual verification and corrections in question.

The Committee of Guarantees has decided, for this purpose, to create a permanent organisation at Berlin, to be known as "the delegation of the Committee of Guarantees at Berlin," which will be accredited to the German Government, the statutes and organisation of which will be notified later. This organisation will be a delegation of the Committee for the purpose of exercising its powers of verification and of supervision within the German administration.

Inter alia it will exercise the following functions:—

(1) In so far as concerns the verification of the exports: One of its officials will be permanently assigned to the German competent services. His duty will be to study the methods followed in the establishment of the commercial statistics, to verify the application as well as the results of these methods, and to make a report on this subject to the Committee.

A number of travelling inspectors, placed under the authority of this official, will be charged with the duty of visiting all the offices of the Customs administration in order to verify in particular the manner in which these export declarations are made out and the regularity of their despatch to Berlin.

The German Government is requested to convene the "Handels-statistischer Beirat" every three months, with a view to obtaining its opinion on the valuation of the exports ascertained during the past three months. Representatives of the Committee of Guarantees will be present at these meetings.

(2) In so far as concerns Customs receipts and generally these resources assigned as guarantee for the service of the bonds, another official of the delegation of the Committee in Berlin will be delegated to the Reichs Ministry of Finance who will keep in touch with the general administration of finance. He should have access to all documents (instructions, circulars, etc.) relative to the assessment and payment of the taxes. He will have in particular the right to require these documents which serve as the basis of the monthly statements of tax returns, in so far as these concern those taxes which are assigned to the service of the bonds. He will be assisted by a number of officials who will have the right to go to the District and Local Officers of the finance administration and to request to see their books.

(3) In so far as concerns the supervision of the 25 per cent. levy, the Committee of Guarantees can only await the proposals of the German Government with regard to the organisation of this levy.

The officials of the Committee of Guarantees will have the right to require from the German officials all information that may be necessary, to require that all books, registers and documents of the administration be produced, and that all administrative premises may be opened to them, and to be given all facilities with a view to acquiring a complete knowledge of all the parts of the Service which it is their duty to supervise.

They will not be authorised at any time either to give orders or to supersede the German officials.

The officials of the Committee of Guarantees who may be charged with any mission of supervision are bound by professional secrecy, and are liable, in the case of any breach thereof, to disciplinary action provided for by the standing orders of the Committee of Guarantees.

The German Government will deliver to those members and officials of the Committee in Berlin, on whose behalf request will be made by the Committee, letters of authority drawn up in terms agreed to between the German Government and the president of this delegation.

The German Government will also take all the necessary steps to facilitate the task of the delegates and officials of the Committee, and will endeavour by all means in its power to assist them in their relations with the German administration.

The Committee of Guarantees would be glad if the German Government would signify its agreement as soon as possible to these arrangements.

(Signed)

MAUCLERE.

BEMELMANS.

d'AMELIO.

LEITH ROSS.

3.

**REPORT OF THE COMMITTEE OF GUARANTEES TO THE
REPARATION COMMISSION DRAWN UP AFTER THE
COMMITTEE'S VISIT TO BERLIN, SEPTEMBER 23—
OCTOBER 14, 1921.**

The principal object of the second visit of the Committee of Guarantees to Berlin was to assure itself of the conditions under which the instalments soon to fall due would be covered by the application of the system of guarantees laid down by its note of June 28.

Considering that the first quarterly instalments of the fixed annuity would be covered by the payment of one milliard gold marks prescribed by Article 5 of the Schedule of Payments, the Committee of Guarantees calculated, at the time of its first meeting at Berlin, that the first instalment of the variable annuity due on November 15, 1921, then estimated at 325 millions, would be amply covered by the deliveries in kind made by Germany since May 1, 1921, and that after the payment of this instalment there would even remain a sufficient surplus to make it unnecessary to claim any guarantee payment before December 15.

The calculations of the Committee were based on the hypothesis, then probable, that the deliveries in kind would amount to 100 million gold marks per month and that returns from the Reparation Recovery Act would amount to 12,500,000 gold marks.

The situation in regard to the instalment of November 15 (variable annuity) of 325 millions, and in regard to the instalment of January 15 (fixed annuity) of 500 millions, was established as follows:

Instalment of November 15.

	Million gold marks.
A. German Debt	325
B. German payments:	
1. Deliveries in kind between May 1 and November 1 (6 months at 1 million per month)	600
2. Reparation Recovery Act (6 months = $1\frac{1}{2}$ %)	75
Total Payments	675
Surplus of payment over instalment due	350

Thus, after the payment of the instalment of November 15, the Committee would still have had in hand a surplus of 350 millions available for the next instalment, due on January 15.

Instalment of January 15.

	Million gold marks.
A. German Debt	500
B. German Payments :	
1. Surplus of instalment of November 15 brought forward	350
2. Deliveries in kind between November 1 and January 1 (2 months)	200
3. Reparation Recovery Act $\frac{150 \times 2}{12}$	25
4. Guarantee funds :	
(a) Customs : payments up to De- cember 15	16.6
(b) Levy on exports up to De- cember 15	91.6
	108.2
Total amount available on January 15	683.2
Surplus of payments over in- stalment due	183.2

This table shows that the instalment of January 15 would have been more than covered and that Germany, in meeting this payment, would have had to pay in cash only 108,200,000 gold marks, or, at the rate then current of 14 paper marks to 1 gold mark, 1,514,800,000 paper marks. The effort would not have been excessive either in regard to the sum in paper marks to be taken from the general resources of the treasury or in regard to the quantity of foreign bills to be acquired.

To-day the situation is totally different :

On the one hand the instalment of November 15, on account of the diminution of exports, will probably be reduced to 275 millions.

On the other, the deliveries in kind made by Germany between May 1 and November 15 will be barely sufficient to cover this instalment ; the surplus of 350 millions, therefore, disappears.

It seems, then, that the status of the instalment of January 15 must be drawn up as follows :

	Million gold marks.
A. German Debt	500
B. German Payments :	
1. Deliveries in kind (between November 1 and January 1)	83.4
2. Reparation Recovery Act : $\frac{50 \times 2}{12}$	8.3
Total	91.7
Balance to be paid in cash	408.3

Between now and January 15, 1922, that is, within three months, the German Government would therefore be obliged to procure cash to the amount of 12,250 million paper marks (30 paper marks — 1 gold mark) in order to assure the payment of the instalment of 500 millions.

In the first place the sum in paper marks to be furnished by the Treasury has become fairly large in itself, and especially so in proportion to the monthly returns from taxes available for the Commonwealth, which amount to scarcely four milliard marks.

Furthermore, the quantity of foreign bills to be obtained has almost quadrupled.

Finally, the acquisition of these bills has become very difficult, not only on account of the size of the sum, but also and especially on account of the rate of the mark.

The representatives of the German Government did not fail to call the attention of the Committee of Guarantees to these various points, both in their verbal statements and in the written Notes that they submitted. In conclusion, Under-Secretary of State Schroeder sent to the Committee on October 3 a Note proposing, in effect, to make in marks a part of the guarantee payments exigible in foreign currencies, the German Government subsequently to convert these marks into bills as rapidly as it was able to do so.

Chancellor Wirth, moreover, in the course of his first interview with the Committee, declared that he had opened negotiations in view of obtaining from German industrial groups a loan of foreign bills, the proceeds of which would be assigned by priority to reparation, especially to the payment of the first instalments.

As the result of this conversation the Committee wrote two letters to the German Government, one to bring up to date the calculations which it had made in June and to define the present situation (Appendix 1), and the other in reply to the proposal concerning the payment in paper marks (Appendix 2). In these letters the Committee explained why it was impossible to accept the proposal of the German Government, but expressed the desire for a further interview with the Chancellor before adopting a definitive decision as to the measures to be taken in view of the new situation.

The Chancellor having repeated his promises, the Committee sent the German Government two further letters, the first (Appendix 3) requesting Dr. Wirth to confirm his promises in writing, and the second (Appendix 4) informing the German Government that, in consideration of the negotiations opened by it in order to pay the next instalments, the Committee was willing to postpone from November 15 to December 1 the date of the first instalment, to be paid in foreign bills, corresponding to the levy on exports. The first monthly payment, in foreign bills, of the proceeds from Customs should be made not later than November 15. The

Committee reserved the right subsequently to notify to the German Government the measures to be taken to complete these payments in view of the next instalments.

The written confirmation which Dr. Wirth was asked to furnish has been received by the Committee. Furthermore the German Government has replied as follows to the second letter sent by the Committee :

The request made by the Committee of Guarantees in regard to the payment in foreign bills of Customs returns will be complied with.

As to the request relating to the payment corresponding to the levy on exports, the German Government agrees to accede in so far as concerns payments in paper marks; in regard to conversion into foreign bills, the German Government, in spite of the present situation, promises to do all in its power to observe the time limit of December 1.

The Committee was of opinion that it was only too probable that the difficulties encountered in the payment of the next instalment would be repeated in the case of the following ones. The Committee considered it necessary, therefore, to proceed to as thorough an examination of the present financial situation of Germany as its means and its functions would permit.

The members of the Committee would consider that they were neglecting their duty to the Reparation Commission if they did not lay before it the results of this investigation.

All calculations for conversion in the present report have been based on the rate of 30 paper marks to one gold mark, that is, on the rate of the mark at the time of the first drafting of the report.

The average monthly value of exports during the quarter May to July, 1921, including deliveries in kind, may be estimated at :

350 million gold marks,
26 per cent. of which equals :
91 million gold marks.

On the assumption that the figures for the quarter May-July be adopted, it will be seen therefore that for the reparation year May 1, 1921, to May 1, 1922, the total sum to be paid by the German Government would be :

2 milliard gold marks—fixed annuity ;
546 million gold marks—variable annuity ;
equal to six monthly instalments of 91 million gold marks ; that is, a total in round figures of 2,550 million gold marks ⁽¹⁾.

⁽¹⁾ The French Representative makes the following reservation in regard to these figures : " If the French proposal to the effect that two quarters of the variable annuity be included instead of one in the payment to be effected on November 15, 1921, were accepted, the annuity for 1921-22 would be 2,825 million gold marks instead of 2,550."

The present Note is based on the latter figure.

It may be anticipated that Germany will pay this sum as follows :

	Milliard.
Cash payment on August 31, 1921	1
Value of deliveries in kind between May 1, 1921, and	
May 1, 1922	0.5
Proceeds of Recovery Act	0.05
	1.55

leaving a balance of

1 milliard gold marks,

to be paid in cash, that is, at the present rate of 30 paper marks to 1 gold mark.

30 milliard paper marks.

In Note No. 1, addressed to the German Government on June 28, the Committee of Guarantees estimated that in view of the deliveries in kind anticipated at that time it would be sufficient for the German Government in order to fulfil its obligations between May 1, 1921, and May 1, 1922, to pay in cash, after August 31, 1921, the sum of :

300 million gold marks.

At the rate of exchange then current (14 paper marks to 1 gold mark) this payment required an expenditure of

4.2 milliard paper marks.

As compared with the above figure of 30 milliards.

The situation thus established shows clearly the influence of the value of the mark on the burdens incumbent on the German Government in the execution of the ultimatum.

The members of the Committee of Guarantees have therefore considered it necessary to examine the following various points and to lay the result before the Reparation Commission :

I. The German Budget for 1921-22.

II. The German Budget for 1922-23.

III. The amount of foreign bills required for Germany's economic life up to May 1, 1922.

IV. Method employed by the German Government to procure foreign bills.

V. Balance of accounts in foreign bills as established in the present report on the economic situation.

CHAPTER I.

GERMAN BUDGET, 1921-1922.

The German Budget, as now submitted to us, is divided into three parts :

(1) Ordinary Budget, to be covered by taxation ;

(2) Extraordinary Budget, including deficit on undertakings, and exceptional expenses such as subsidies for food supplies or to the populations of transferred territories.

Receipts in the extraordinary Budget include returns from exceptional taxes, etc.

- (3) Treaty Budget, that is, reparations and general execution of the Peace Treaty, for which no receipts are given, not even those assigned as guarantees.

1. *Figures submitted by the German Government to the Committee of Guarantees.*

These figures are given in Annex I.⁽¹⁾ It will be seen that the total deficit for the 1921-1922 Budget amounts to:

89 milliard paper marks.

2. *Figures as adjusted by the Committee of Guarantees.*

(a) *Receipts.*—The Committee has examined the 1921-1922 Budget both in regard to the present and future, and it has found that the net returns for the first four months of the year amounted to 20,078 million paper marks. On the basis of this figure, the net returns for the whole year would be 60,234 million paper marks whereas, on September 26, Herr Schroeder estimated these returns at 51,500 million paper marks.

If the Committee's estimate were adopted the above mentioned deficit of 89 milliard paper marks would be reduced by about 9 milliards.

It is very improbable that the taxation at present being considered by the Reichstag (*see* Annex II to the present report)⁽¹⁾ will be levied during the year 1921-22. It is possible that a few of the indirect taxes, if voted, will begin to yield on January 1, 1922. In this case, the above-mentioned deficit might be reduced by about 2 milliard paper marks.

An increase in the surtax added to Customs duties (*see* Annex II, paragraph 16)⁽¹⁾ and the increase in the coal tax (*see* Annex II, paragraph 12)⁽¹⁾ might produce about 822 million paper marks.

While recognising the political difficulties with which the German Government is faced, the Committee must call attention to the fact that, although five months have elapsed since the coming into force of the Schedule of Payments, it is very improbable that returns from taxes will be increased before December 31, 1921.

The findings of the Committee in regard to this question are given more fully in Annex II.⁽¹⁾

(b) *Expenditure* (*see* Annex III).⁽¹⁾

1. *Ordinary budget:*

The items entered in the ordinary budget under this head are the current expenses of the Commonwealth; the Committee of

⁽¹⁾ These Annexes, being too large, could not be reprinted in the present publication.

Guarantees has not been able to make a detailed examination of the various items of this budget; it must therefore make the fullest reservations in regard to the figures submitted to it by the German Government.

2. Extraordinary budget:

In the deficit of the extraordinary budget for the year 1921-1922 estimated above at:

28.5 milliard paper marks,

The operation of the postal services and railways amounts to:

	Milliard paper marks.
Railways	14.4
Postal services	4.4
	18.8

that is:

66 per cent. of the deficit (*see* Annex III).⁽¹⁾

As shown by an examination made by certain members of the Committee of Guarantees, a report of which is enclosed herewith Annex III,⁽¹⁾ the majority of the Committee of Guarantees considers that an energetic policy on the part of the German Government might have resulted in a reduction of expenditure for the extraordinary budget 1921-1922, of:

from 8 to 10 milliard paper marks

divided among the deficits on railways, postal and telegraph service, food subsidies and the cost of miners' dwellings.

3. Treaty budget.

The Treaty budget (1921-1922 estimate) shows a surplus expenditure of:

61 milliard paper marks,

a figure which will increase with any further depreciation of the mark.

The examination made by the Committee of Guarantees shows that the German budget for the year 1921-1922, as submitted by the German Government, is as follows:

	Milliard paper marks.	
	Receipts.	Expenditure.
Ordinary budget	51.5	51.5
Extraordinary budget	10.0	38.0
Treaty budget	—	68.0
Deficit	96.0	—
	157.5	157.5

⁽¹⁾ These Annexes, being too large, could not be reprinted in the present publication.

With the adjustments made by the majority of the Committee of Guarantees, and calculating exchange at the rate of 30 paper marks to 1 gold mark, the 1921-1922 budget would be as follows :—

				Milliard paper marks.	
				<i>Receipts.</i>	<i>Expenditure.</i>
Ordinary budget	...	...	...	65.0	51.5
Extraordinary budget	...	...	...	10.0	29.0
Treaty budget	...	...	...	—	68.0
Deficit	...	...	...	73.5	—
				148.5	148.5

It should be pointed out that among the expenditure entered in the ordinary budget is a sum of

9,600 million paper marks,

representing payments to be made by the Commonwealth to various States of the Commonwealth. As a result of the increase in tax returns, a certain proportion of which must be handed over to the States, these payments will amount to from 11 to 12 milliard paper marks.

The Committee proposes to ascertain the manner in which these sums are expended and the funds proper of the said States, derived from returns from taxes collected directly (approximately 6 milliard paper marks per annum) are expended. The Committee will bring this question to the notice of the German Government as soon as its Services have completed their examination.

CHAPTER II.

GERMAN BUDGET, 1922-1923 (ESTIMATES).

On the ground that it is impossible to prepare any reliable budget estimate in a currency whose rate is continually changing, the German Government made all reservations when submitting the following estimates.

This budget will be established according to the same principles as that for 1921-1922, that is :

Ordinary budget.

Extraordinary budget (deficit on undertakings, etc.).

Treaty budget for reparations and execution of the Treaty.

1.—*Figures submitted by the German Government to the Committee of Guarantees.*

According to the estimates of the German Government given in Annex IV⁽¹⁾ to the present document, the ordinary and the extraordinary budgets balance with a total of :

87.5 milliard paper marks
for receipts and expenditure.

The Treaty budget shows a deficit of :

90 milliard paper marks.

(¹) These Annexes, being too large, could not be reprinted in the present publication.

2. *Figures as adjusted by the Committee.*

(a) *Receipts (see Annex II.).*⁽¹⁾

At least 31.2 milliard paper marks of the funds provided will be derived from 15 Bills now before the Reichstag.

The Committee has examined, in as far as was possible, the estimated resources, as submitted to it by the German Government. While, in its opinion, the German estimates are in some cases optimistic, and in others pessimistic, it considers in a general way that the Government estimates may be accepted.

Annex II⁽¹⁾ contains a detailed statement of the results of this examination; a few words will be added here regarding some of the most important points.

I.—DIRECT TAXES.

It is to be regretted that two at least of these taxes are of a complicated nature, and cannot be productive for the year with which the Committee is concerned. There are many ways of evading payment of all the direct taxes, and a very considerable number of taxpayers have managed to evade them up to the present. The German Government states that it intends henceforward to apply these taxes more rigorously.

II.—INDIRECT TAXES.

It would seem, at first sight, that more might be demanded from certain taxes or duties (as, for instance, the taxes on turnover, on sugar, coal, exports, etc.) which, owing to the fall of the mark, might be raised to compensate for this depreciation of the national currency.

As regards the customs duties on imports, which, theoretically speaking, are payable in gold, the German Government has not taken the necessary measures to increase the coefficient in such proportion as to compensate for the considerable difference at present existing between the paper mark and the gold mark. Measures have been taken for a considerable increase in this coefficient to date from October 20, 1921. It will, nevertheless, be below the actual parity, and the Committee has reason to suppose that, in view of certain expedients in common practice for obtaining exemption and rebates, this source will not produce all that it should produce, even with the increased coefficient which has been adopted.

Energetic representations on this matter have been made to the German Government.

Lastly, the Committee desires to point out that this increase in the resources is far from covering the deficit resulting from the indemnity. The only scheme which appears to be contemplated for providing fresh resources is that known as the "Erfassung der

⁽¹⁾ This Annex, being too large, could not be reprinted in the present publication.

Goldwerke," that is, seizure of gold assets; in other words, a kind of levy on property, as represented by land, factories, industrial works, etc. The possibility of instituting such a levy constitutes at the present moment a burning political question in Germany, and is the subject of negotiations between manufacturers and the Government.

(b) *Expenditure:*

The few adjustments made by the Committee of Guarantees, and summarised in Annex V,⁽¹⁾ would result in the 1922-1923 budget being re-cast as follows:—

	<i>Receipts.</i>	<i>Expenditure.</i>
	<i>Milliard.</i>	<i>Milliard.</i>
Ordinary budget	82	65
Extraordinary budget	5.4	14
Treaty budget	—	100
Deficit	91.6	—
	179	179

that is, a deficit of:

91.6 milliard paper marks.

In regard to the form of the budget, the Committee has pointed out that it was incorrect from a legal point of view to submit the budget while primarily utilising the revenue to cover the expenditure proper, both ordinary and extraordinary, of the Commonwealth, in such a way that expenditure or the execution of the Treaty is covered only by the balance, if any, of the revenue; there is, however, in this case no balance.

It would be more compatible with Germany's obligations, particularly under Article 248 and paragraph 12 (b) of Annex II to Part VIII of the Treaty of Versailles, and Article 7 of the Schedule of Payments, first to submit the Treaty Budget, showing in respect of expenditure the sums due for the Armies of Occupation and for reparation, and, in respect of revenue: (1) Customs returns; (2) the proceeds of funds especially assigned under paragraph (c) of Article 7 of the Schedule of Payments.

As regards the general question of resources, the Committee points out that, in order to give an opinion of any value on the point as to whether these taxes might be applied in Germany in such a way as to add to an appreciable extent to the budget receipts, it would be necessary to make a careful examination of Germany's fiscal capacity.

The Committee of Guarantees has decided to examine this question more thoroughly. In particular, under sub-paragraph b, paragraph 12, Annex II, Part VIII of the Treaty, it has directed

⁽¹⁾ These Annexes, being too large, could not be reprinted in the present publication.

the Intelligence Service, assisted by any economic institute or experts that may be chosen, to ascertain whether the German scheme of taxation is fully as heavy proportionately as that of any of the Powers represented on the Commission.

CHAPTER III.

AMOUNT OF FOREIGN BILLS NECESSARY FOR THE ECONOMIC LIFE OF GERMANY BETWEEN SEPTEMBER 1, 1921, AND MAY 1, 1922 (see Annex VI).⁽¹⁾

The amount of foreign bills required by Germany up to May 1, 1922, both for her economic life and for the execution of the Peace Treaty, exclusive of individual requirements, has been estimated by the German Government at :

from 2,574 to 2,724 million gold marks.

The thorough examination of these figures by the Committee of Guarantees has enabled the latter to state with certainty that this amount cannot exceed :

from 2,330 to 2,480 million gold marks.

The figure adopted by the Committee of Guarantees for a period of seven months (October 1, 1921, to May 1, 1922), fixes the average monthly requirements of the Commonwealth in respect of foreign bills at 350 million gold marks.

In regard to these figures, it might perhaps be of interest to give the amount, in gold marks, which the German Government acquired during May, June, July and August, 1921, that is before the rapid fall of the mark now manifest :

May.	June.	July.	August.
264	228	125	135

(in millions of gold marks.)

CHAPTER IV.

METHOD ADOPTED BY THE GERMAN GOVERNMENT IN PROCURING FOREIGN BILLS.

The German Government estimates that it can procure monthly, by measures which it has taken with the help of various bureaux for the supervision of exports (see Annex VII) :⁽¹⁾

85 million gold marks.

From now until May 1, 1922, therefore, the German Government would have to procure in monthly instalments :

from 260 to 265 million gold marks

which would be obtained on the Berlin market or on foreign markets.

In June last the Committee consented, under the following conditions, that the levy of 25 per cent. on exports laid down in Article 7

⁽¹⁾ These Annexes, being too large, could not be reprinted in the present publication.

of the Schedule of Payments should not be enforced in practice by the German Government :

- (1) That the German Government should hand over monthly foreign bills for a sum equivalent to the levy ;
- (2) The measures for carrying out the levy should be prepared immediately, in order that it might be applied at any moment if the Committee so desired.

The German Government has submitted to the Committee a draft order to this effect insisting, however, that in its opinion such measures would increase, rather than diminish, the difficulties which it experiences in obtaining foreign bills. The principal reasons which it advances in support of its argument are the following : the exporter could not procure foreign bills prior to the exportation of the goods without selling marks in order to purchase the foreign bills ; moreover, if the said exporter wished to retain a sum in foreign currencies standing to his credit, there would be nothing to prevent him selling the paper marks which he would receive in return for the goods and using them for purchasing foreign bills to any extent he desired.

The German representatives admitted that the speculation carried on by German business firms and German citizens has exercised a considerable effect on the markets, since everyone tries to exchange his assets in marks for more stable foreign currencies. It has been suggested that this might be prevented by re-establishing the Devisenkontrol in the conditions under which it operated during the war, but the German representatives pointed out that this would involve the re-establishment of the postal censorship, the censorship of telegrams and telephone communication and that, even if such control were resumed, it would be very easily evaded.

In a general way, they expressed the feeling that any artificial measures which might be taken could only result in a change of the means employed by the Government to obtain the foreign bills, and that such measures would not, in the end, increase the quantity of foreign bills available for acquisition ; that, consequently, it would be far better for the Government to centralise its purchases, rather than to obtain the foreign bills by indirect purchase and through the agency of a number of different buyers.

The Committee agreed to postpone the question as to whether the levy on exports should be put into operation.

It is obviously of the greatest importance that the German Government should not authorise its exporters to utilise their foreign bills to create assets abroad except within the strict limits of their business requirements, and that, moreover, it should prevent the cornering, for purposes of speculation, of the foreign bills available on the market for the needs of the German Government ; the Committee suggests that the German Government should be urged to take the measures which appear to be necessary in this connection.

CHAPTER V

BALANCE OF ACCOUNTS IN RESPECT OF FOREIGN BILLS AS SET FORTH
IN THE REPORT ON THE PRESENT ECONOMIC SITUATION.

Herr Hirsch, Under-Secretary of State, has submitted a report to the Committee of Guarantees in which it is shown that, according to his estimate, the German balance of foreign bills for the current year, inclusive of the charges resulting from the Schedule of Payments amounting to 3 milliard gold marks, will show a deficit of a little more than

5 milliard gold marks.

The Committee of Guarantees is of opinion (*see* Annex VIII) ⁽¹⁾ that the deficit in the German accounts in respect of foreign bills may be reduced to approximately

4 milliard gold marks.

In view, however, of the doubtful factors adopted, the Committee submits this estimate with full reservations.

CONCLUSIONS.

The Committee of Guarantees has endeavoured to lay before the Reparation Commission as accurate an idea as possible of the situation in Germany in regard to reparations. A recital of the facts, however, should not be made without a critical analysis of these facts and an investigation into the causes from which they have arisen.

The principal difficulty adduced by the German Government is that of collecting the foreign bills in the course of the next months.

In this connection, it may first be questioned whether the German Government has really tried every possible course.

Unquestionably, a law against the exportation of capital was promulgated by the German Government in 1919, but it is a notorious fact that in spite of this law, and probably on account of the indulgence with which it has been applied, German nationals have managed to transfer abroad a substantial portion of the national wealth.

Unquestionably, also, the German Government has made a point of taking measures to compel the exporters to hand over all bills on foreign countries, but this policy also has been half-hearted. After abolishing the "Centrales" and decontrolling the traffic in foreign bills, the German Government was slow and timorous in taking measures for compelling the exporters to release a share of these bills to the Government. According to information in the possession of the Committee, the last orders issued by the German Government do indeed instruct the Foreign Trade Bureaux to make the granting of export licences contingent on the exporters undertaking to hand over to the Government a portion of the

⁽¹⁾ This Annex, being too large, could not be reprinted in the present publication.

foreign bills they receive. This measure, however, involves numerous reservations and exemptions which are calculated very largely to lessen its effectiveness.

However this may be, it is proved that the present practice of the German exporters is to leave abroad, even in excess of their business requirements, the largest available portion of the assets created in the country in question by their sales, and the measures hitherto adopted are not considered drastic enough to react against this state of affairs.

The depreciation of the mark, the direct cause of the difficulties encountered by the German Government in the fulfilment of its obligations in regard to the Allies, is for the most part due to the financial policy of weakness and delay followed since the cessation of hostilities. Although the war ended three years ago and although two years have elapsed since it was notified of the obligations imposed upon it by the Peace Treaty, the German Government has never seriously dealt with the public finances of the country with a view to carrying out its reparation obligations or for the purpose of re-organising its Treasury irrespective of the question of reparations.

Deficits in the budget have continued to increase; Germany who, even before the war had a very elaborate administrative organisation, has not effected the economy that might justly be anticipated from a country in her position; notwithstanding her territorial losses, the number of officials has increased; her food policy, which could be justified immediately after the raising of the blockade, has been continued on a large scale and still figures in the budget for several milliards; the Commonwealth has, under onerous conditions, taken over the management of the railways and this management has resulted in a heavy loss.

While Germany made no attempt to reduce her expenditure she neglected to increase her revenue to make good the deficit.

Apart from the Reichsnotopfer, which was only partially collected and the purpose of which was immediately diverted, the only increases in revenue found in the budgets are principally due to the depreciation of the mark which causes a rise in prices and an increase in the returns from certain taxes on consumption. Furthermore, this increase exists only when the tax, which like the Umsatzsteuer, is an ad valorem tax, increases automatically with prices. On the other hand, in regard to taxes on consumption based on quantities, the German Government has not made the necessary increases.

This policy gives rise to such mistrust in respect of Germany's financial future and her currency that the German Government has deprived itself of the possibility of raising internal loans which would have enabled it to consolidate its floating debt and reduce its paper currency. The budgetary deficits must therefore be covered solely by issues of Treasury Bonds, and since the public refuses to place any trust in the German Government, even for

short dated loans, the German Treasury must discount its bonds with the Reichsbank, thus increasing the circulation of paper currency to an extent which it is impossible to foresee.

The Committee of Guarantees cannot believe that such a position, at least to a great extent, was unavoidable. Germany does not seem to have made full use of her industrial capacity and her interior vitality.

The Committee of Guarantees is of opinion that, by means of an energetic financial policy, it would still be possible for the German Government to restore public finance to a state more in keeping with present economic conditions in Germany. The duty of the German Government would be to meet the exceptional financial situation by adopting exceptional measures. It is only when Germany has adopted this policy that she can be considered to have made a real endeavour to improve her financial position and to meet her obligations.

However this may be, the Committee of Guarantee begs to submit the following conclusions to the Reparation Commission :

1. The Committee of Guarantees in no way over-estimates the significance of the fall of the mark, which, although it increases the obligations of the Commonwealth in terms of paper marks, must automatically bring about an increase in the budgetary receipts also in terms of paper marks. This increase, however, will require a certain time, and during this period of transition the acquisition by the German Government of the amount of paper marks necessary for the fulfilment of its obligations gives rise to a question that calls for special study.

The German Government could no doubt, with the means at its disposal, shorten the period of transition referred to above, for example, as indicated in Annex II,⁽¹⁾ a more rapid increase of the coefficient adopted for bringing the present Customs duties in keeping with those of 1914, an increase in the tax on beer, spirits, sugar, as well as on exports and coal (the latter with the intention of balancing the effects of the depreciation of the mark), could at the same time increase the resources of the German Government in paper marks and facilitate the balance of the Budget. It is doubtful whether it has exerted or is exerting every effort to this end.

The Committee of Guarantees considers, however, that the main object and one which must be attained if a practical programme is to be established should be the stabilisation of the mark, the intrinsic value of which is of less importance than actual stabilisation.

The deficit for the current year is estimated at at least 90 milliard paper marks : even on the assumption that the Government's fiscal programme be applied in its entirety, the deficit for the next year should apparently also amount to 90 milliard paper marks.

⁽¹⁾ This Annex, being too large, could not be reprinted in the present publication.

It would seem that it is intended to make good this deficit by means of an issue of Treasury bonds discountable in the usual manner and which may therefore occasion further inflation of paper currency. The depreciation of the mark must unavoidably continue so long as the machine for the printing of notes is the only means of covering budgetary deficits. The Committee is therefore of opinion that the German Government should be urged to consider the possibility of issuing an internal loan at an early date, in order that any deficit not covered by increased taxation may be covered by means of actual economy rather than by the continual issue of notes.

2. The conversion of paper marks into such foreign currencies as might be approved by the Committee of Guarantees also seems to have become more difficult during the last few weeks. The figures submitted by the German Government obviously need verifying since they exclude, or at least give little consideration to, what it has been agreed to term "undeclared exports" (exportations cachées).

It is a well-known fact that German nationals have considerable assets abroad producing an annual income, which have not been sufficiently taken into account by the German Government in its reports to the Committee of Guarantees.

3. The Committee of Guarantees is of opinion that, in order to meet her obligations, Germany should not only draw on her revenue but should also agree to sacrifice a portion of her capital. Such a procedure would naturally be of a complicated nature and would necessitate financial organisation.

Such organisation cannot be set up and perfected in a few weeks; it would seem that it could not be achieved before the next instalments due in January, February and even April. A provisional and restricted scheme therefore seems necessary to meet these instalments. The Commonwealth Government is at present taking steps to this end.

If it succeeds, that is, if, with the help of the personal guarantee of German manufacturers and traders, it can shortly obtain foreign credit, the instalments are assured. A period of grace will thus be obtained in which to examine with the German Government a series of measures which in stabilising the mark would facilitate the solution of the reparation problem. If the contemplated scheme fails, it is to be feared that the German Government will declare that it is unable to effect the next payments laid down in the Schedule of Payments.

The Committee of Guarantees consider it its duty to call the immediate attention of the Reparation Commission to this situation.

(Signed) MAUCLERE.
KEMBALL-COOK.
d'AMELIO.
BEMELMANS.

APPENDIX 1.

Committee of Guarantees.

*Rectification of Note No. 1 of the Committee of Guarantees,
dated June 28, 1921.*

Berlin, October 10, 1921.

The Committee of Guarantees.

To Dr. Wirth, German Chancellor and Minister of Finance.

When the Committee of Guarantees attempted at the end of June, 1921, to determine the amount of the revenue to be assigned by the German Government, under the terms of Paragraph C, Article 7, of the Schedule of Payments in order to provide the full security explicitly prescribed by Paragraphs A and B of this Article, it was obliged to base its calculations, subject, moreover, to the fullest reservations, on certain figures which could at the time be regarded only as mere estimates.

The Committee estimated at that time that the payments to be effected by Germany during the fiscal year 1921-1922 would amount to 2,650 million gold marks, and that these would be covered to the extent of 2,350 million gold marks by deliveries in kind, by the proceeds of the Reparation Recovery Act, and by the sum of 1 milliard gold marks, remitted to the Reparation Commission in execution of Article 5 of the Schedule of payments; thus there would have remained an outstanding balance of only 300 million gold marks.

As a result of its estimates, the Committee had concluded that :

- (a) The assignment of Customs duties as security for payment would only need to begin as from November 15, and that the first payment corresponding to the 25 per cent. levy on exports would not need to be effected until December 15.
- (b) The assignment of other revenue as security for payment would probably not be necessary during the fiscal year 1921-1922.

Events have since invalidated the original estimates and obliged the Committee to revise both these and the conclusions which were drawn from them. On the one hand, insufficiency of deliveries in kind and depreciation of the mark necessitate an increase in the amount of revenue by taxation, to be assigned by the German Government as security for payments in currency. On the other hand, the German Government anticipates a reduction in exports which would lead to a reduction of the estimates for the variable annuity.

To revert to the general lines of the exposé given in Note No. 1 of June 28, the estimates for the year 1921-1922 revised in accordance with the above considerations should to-day be as follows :

If it be admitted that the diminution of exports during the year 1921-1922 will reduce the payment to be effected on November 15, 1921 and February 15, 1922, respectively, to 275 million, Germany's obligations for the year May 1, 1921, to April 30, 1922, would amount to 2,550 million gold marks. To this sum it is necessary to add two monthly instalments, being deposit of security for the payment due on May 15, estimated at 275 millions; that is, 91.7 millions per instalment, making a total of 183.4 million gold marks. The total amount due by Germany before May 1, 1922, would thus be 2,733 million gold marks.

The present position with regard to payments may be set forth as follows :

- (a) 1,000 million gold marks have been remitted in execution of Article 5 of the Schedule of Payments;
- (b) 500 million gold marks have been, or will be, covered by deliveries in kind;
- (c) 50 million gold marks will result from the Reparation Recovery Act.

A total of 1,550 million gold marks may therefore provisionally be considered as already covered, leaving a balance of 1,183 million gold marks to be met out of resources specified in Article 7.

There can obviously no longer be any question of covering this amount by means of the two sources of revenue assigned as security for payment under the terms of paragraphs A and B of Article 7 of the Schedule of Payments, since these are only due to come into effect as from November 15 and December 15 respectively in accordance with the Note of June 28.

In view, therefore, of the deficit which may be foreseen at the present, the above revenue, set aside as guarantee, should be placed at the disposal of the Committee as from the earliest date possible, such as, perhaps, October 15.

In this case the funds set aside as guarantee of payment could be assessed as follows :—

- (a) *Customs*.—Customs receipts, including export duties, may, in view of the increase of the coefficient, be estimated for the remaining half-year at about 2,968.8 million paper marks, or, converted at the rate of 1 gold mark to 30 paper marks, at 98 million gold marks (*see annexed note*).
- (b) *Levy on Exports*.—The figure of 275 million gold marks, adopted above as one quarter of the variable annuity, assumes annual exports by Germany amounting to

$$\frac{275 \times 4 \times 100}{26} = 4,230 \text{ million gold marks.}$$

A levy of 25 per cent. on these exports would give a figure of approximately 1,050 millions, from which there must be deducted the 50 millions adopted above as the yield of the Reparation Recovery Act, leaving an approximate total of 1,000 million. During the six coming months the system prescribed by the Committee of Guarantees in the Note of June 28 should, if carried into effect, therefore yield sums in payment of guarantees to the amount of $\frac{1,000}{2}$, that is, 500 millions.

The total resources set aside as guarantee of payment under the terms of paragraphs A and B of Article 7, and to be placed at the disposal of the Committee on the above assumption, are, therefore, equivalent to 598 million gold marks.

Hence there remain (1,183-598) i.e., 585 million gold marks, corresponding to 17,550 million paper marks (at the rate of 1 gold mark to 30 paper marks) to be guaranteed by additional sources of revenue under the terms of Paragraph C of Article 7.

If, however, the returns for the months May, June and July, amended where necessary as indicated in the attached Annex, are adopted as a basis, it appears likely that the six taxes set aside by the German Government in June last as security for payment will yield a monthly revenue of approximately 1,632 million paper marks.

Assuming firstly that revenue from these taxes were actually deposited as a guarantee of payment as from October 15, 1921, and assuming further that their total revenue were so deposited—which would, moreover, be contrary to the views of the Committee, as set forth in the letter of September 1—it would only be possible to reckon with a sum of approximately 9,790 million paper marks, as from the present time until April 15, 1922. There would still remain a deficit of 7,760 million paper marks, or 258.7 million gold marks, on account of which the German Government would be obliged to offer the Committee other revenue as a guarantee of payment.

(Signed)

MAUCLERE.
BEMELMANS.
KEMBALL-COOK.
GRAZIADRI.

ESTIMATED RETURNS FROM THE REVENUE ASSIGNED AS SECURITY
FOR PAYMENT FOR THE PERIOD FROM OCTOBER 15, 1921, TO
APRIL 15, 1922.

The Customs and Taxes, which it has been proposed to set aside as guarantee of payment, show the following average monthly returns, on the basis of receipts for the last three months for which statistics are available, that is, May, June and July (April has been

omitted, as the returns for this month could not be taken as standard, owing to the overlapping of accounts at the beginning of the new fiscal year).

In the case of certain taxes, adjustments appeared necessary as a result of the conditions of their collection; such adjustments are dealt with below in the Notes inserted in the table.

A. Sources of Revenue provided for by the Schedule of Payments (Para. 7a).

1. Customs duties.

	Millions.	Millions.
Returns for the last three months ...	948.9	
Anticipated average returns per month...		425

(In this estimate account is taken of the increased coefficient coming into force as from October 20; the estimate was reached after discussion with the competent German Officials.)

2. Levy on Exports (Ausfuhrabgaben).

Returns for the last three months ...	194.4	
Anticipated average returns per month...		64.8

(The taxes collected by the Finance Administration and by the Ministry of National Economy have been combined under one heading.)

489.8

B. Taxes proposed as security for payment. (Schedule of Payments, Para. 7 c).

1. Tobacco Tax.

	Millions.	Millions.
Returns for the last three months ...	765	
Anticipated average returns per month		255

2. Coal Tax.

Returns for the last three months ...	1,147	
Anticipated average returns per month		420
(This estimate takes account of a 10 per cent. rise in the price of coal.)		

3. Turnover Tax.

Returns for the last three months ...	2,548	
Anticipated average returns per month		700

NOTE.—A considerable proportion of the returns for the first months of the year apply to the year 1920/21; it is therefore as well to adopt only an average return approximating to that for the last month (July; 700).

4. *Sugar Tax.*

	Millions.	Millions.
Returns for the last three months ...	37.3	
Anticipated average returns per month		14.5

NOTE.—As the revenue from this tax is mostly received during the winter season, the average anticipated returns for the last eight months, according to the estimates of the Budget, have been adopted as the basis of calculation.

5. *Spirit Monopoly.*

Returns for the last three months ...	81.220	
Anticipated average returns per month		75

NOTE.—On the basis of Budget estimates this Monopoly should yield 688 millions per annum, i.e., 57 millions, per month, but the majority of receipts come in during the last months of the fiscal year.

The above figures for the monthly average have been obtained by taking the balance of receipts still due according to Budget estimates for the remainder of the year and dividing these by eight (688 - 89 millions, being returns for the first four months = 599 millions).

6. *Tax on Revenue from Capital.*

Returns for the last three months ...	502	
Anticipated average returns per month		167.3
Total revenue from taxes proposed as security for payment (Article 7 c) ...		1,631.8

On the basis of the above estimates, in which due allowance has been made for the probable fluctuations of revenue, the following total is reached for the six months from October 15, 1921, to April 15, 1922 :

	Million.
(a) Returns from Customs duties ...	2,938.8
(b) Returns from six taxes offered as security for payment ...	9,790.8

(Signed)

MAUCLERE.
BEMELMANS.
KEMBALL-COOK.
GRAZIADEI.

APPENDIX 2.

REPLY OF THE COMMITTEE OF GUARANTEES TO THE GERMAN PROPOSALS OF OCTOBER 3, 1921.

The Committee of Guarantees.

To Chancellor Wirth, Minister of Finance.

Berlin, October 10, 1921.

The Committee of Guarantees has examined the proposal submitted on October 3 by Herr Schröder on behalf of the German Government, with a view to overcoming the difficulties arising out of the present situation. The proposal amounted substantially to a suggestion that such part of the instalments payable in gold marks as could not be met either by deliveries in kind and by the proceeds of the Reparation Recovery Act, or by the foreign bills derived from Customs Duties and from the 25 per cent. levy on exports, should be replaced by paper marks, ultimately replaceable by approved foreign bills.

The Committee of Guarantees fully recognises the difficulties at present being experienced by the German Government in the collection of the foreign bills required for fulfilment of its obligations, on account of the depreciation of the mark and the unsettled state of the foreign exchange market. It was, moreover, prepared to receive and give due consideration to any proposals which might be submitted to it by the German Government with a view to avoiding the necessity for the immediate purchase of excessively large sums in foreign bills on the exchange market, provided always that the proposed solution offered guarantees equivalent in value to those which the Schedule of Payments requires the Committee to exact.

The proposal submitted by the German Government does not, however, comply with this condition. Article 7 of the Schedule of Payments explicitly stipulates that all payments shall be effected in gold or in *foreign currencies*; and this formal injunction the Committee of Guarantees is not entitled to disregard. Even, therefore, if it considered that a stabilised paper mark offered sufficient guarantee, it would not have the power to accept payment in this currency. It must be realised, however, that circumstances are quite otherwise; and that so long as German exchange remains subject to such considerable adverse fluctuations as it has recently suffered, and so long as the issue of unsecured banknotes continues, paper marks will not constitute adequate security.

The Committee of Guarantees desires therefore to have a further meeting with the Chancellor with a view to discussing these questions.

(Signed)

MAUCLERE.
KEMBALL-COOK.

APPENDIX 3.

LETTER FROM THE COMMITTEE OF GUARANTEES TO THE GERMAN
GOVERNMENT TO ASK THE CHANCELLOR FOR WRITTEN CONFIRMA-
TION OF HIS ENGAGEMENTS.

Berlin, October 12, 1921.

The Committee of Guarantees.

To Dr. Wirth, Chancellor of the Commonwealth,
Minister of Finance.

SIR,

In the course of the conversation which the Committee of Guarantees had the honour to hold with you on the 11th instant concerning the cover for the coming payments, and in particular those of January 15, you requested us not to adopt any decision in the matter until we learned the result of the negotiations which you are now carrying on with the representatives of industry, commerce and agriculture in regard to the floating of a foreign loan, and until we heard the new proposals which, as a result of these negotiations, the German Government would submit to the Committee before the end of November. You assured us, moreover, that the entire proceeds of this loan would be assigned to the execution of the Schedule of Payments.

We should be obliged if you would send us a letter confirming these statements.

We further request you to note the fact that it is in connection with this promise and in consideration of the efforts of the Government of which you are Prime Minister, and in particular in regard to the aid to be obtained in order to conclude the loan, that the Committee has consented to regulate the next payments to be made by Germany according to the proposals contained in your note of to-day's date.

We have the honour to be, etc.,

(Signed) MAUCLERE.
BEMELMANS.
KEMBALL-COOK.
GRAZIADEI.

APPENDIX 4.

LETTER FROM THE COMMITTEE TO THE GERMAN CHANCELLOR FIXING
THE METHOD OF REGULATING THE PAYMENTS TO BE MADE BY
GERMANY.

Berlin, October 12, 1921.

The Committee of Guarantees.

To Dr. Wirth, Chancellor of the Commonwealth,
Minister of Finance.

SIR,

In pursuance to the conversations held with the representatives of the German Government, the Committee of Guarantees has the honour to inform you that it has agreed to the payment of the next instalments under the Schedule of Payments in the following manner:

(1) On or after October 15, the German Government shall pay in paper marks, to an account opened in the name of the Committee, the returns from the Customs (including export taxes), at intervals which shall be determined in agreement with the Delegation of the Committee at Berlin. It shall convert these paper marks into foreign currency, and the conversion for each period of one month shall be completed by the close of the period in question, that is, on November 15, for the period from October 15 to November 15, 1921, and on December 15 for the period from November 15 to December 15, and so on. The paper marks set apart for the above account shall be liberated *puri passu* with the remittance of foreign currency accepted by the Committee, and to the amount of these remittances.

(2) The same procedure shall be followed in regard to the application of paragraph (b) of Article 7 of the Schedule of Payments, namely, the payment of sums corresponding to 25 per cent. of the exports. The total amount shall be calculated for the period from October 15 to November 15 on the basis of the value of the exports for the quarter May, June and July, subject to subsequent adjustments after verification of this value. For this first period, however, the payment of these sums in foreign currency may be postponed from November 15 to December 1 at latest.

(3) The Committee will communicate later with the German Government in regard to the deficit remaining, after the payment of these sums, in the obligations of Germany under the Schedule of Payments for future dates of payment, and more especially for January 15, 1922.

The Committee urgently requests you to communicate the agreement of the German Government to the above arrangements.

We have the honour to be, etc.,

(Signed) MAUCLERE.
BEMELMANS.
KEMBALL-COOK.
GRAZIADEI.

4.

LETTER FROM THE REPARATION COMMISSION
TO THE GERMAN GOVERNMENT.⁽¹⁾

December 2, 1921.

THE REPARATION COMMISSION TO THE GERMAN GOVERNMENT.

The Reparation Commission reminds the German Government of the oral declarations which it made to the Chancellor in the course of its visit to Berlin, and which may be summarised as follows :—

(1) The Reparation Commission, having taken cognizance of the labours of the Committee of Guarantees, and having heard the explanations offered by the German Chancellor and by his representatives as to the measures which the German Government has adopted or proposes to adopt with a view to assuring the payment of the instalments due on January 15 and February 15 next, urgently request the German Government to give its full attention to the steps immediately necessary to ensure the payment of the said instalments on their due dates.

The German Government will thus avoid the grave consequences which would necessarily result for Germany from the non-payment of the instalments at their due dates.

The Reparation Commission strongly urges the German Government to make every possible effort to obtain the necessary amount of foreign exchange either from its own nationals, who notoriously have such foreign exchange at their disposal, or from foreign lenders.

(2) The Reparation Commission is persuaded that the difficulties encountered by the German Government, difficulties which are closely connected with the recent serious fall in the mark exchange, are of a financial rather than an economic character. They are in great measure due to the fact that the German Government has failed to take timely steps to balance the Budget, with the result that the public expenditure has in an ever-increasing proportion been met by means of credits created in favour of the Government by the Reichsbank and consequent expansion of the fiduciary note issue.

The Reparation Commission strongly urges the German Government to take without delay all necessary steps to restore the financial situation.

(Signed) DUBOIS.

JOHN BRADBURY.

⁽¹⁾ The Reparation Commission, taking into consideration the situation set out in the Report from the Committee of Guarantees (submitted to the Commission as result of the Committee's last visit to Berlin), the shortness of the period before the falling due of the January 15 instalment, and the necessity for completing, as soon as possible, the steps contemplated by the Committee, had, on November 5, 1921, decided to go to Berlin. The object of its visit was to examine the progress made and still to be made in order to put the above-mentioned steps into execution, as well as the methods which the German Government proposed to adopt to procure the funds necessary for the execution of its obligations. (Official communiqué from November 5, 1921.)

5.

LETTER FROM Dr. WIRTH TO THE REPARATION COMMISSION.

Berlin, December 14, 1921.

To the Chairman of the Reparation Commission.

SIR,

As I had the honour to explain to the Reparation Commission during its visit to Berlin, the German Government has made every effort to insure the payment of the two instalments shortly due under the terms of the Schedule of Payments of May 5, 1921.

In view of the fact that the success of these efforts depended on a foreign loan, and that in transactions of this nature the active collaboration of British financiers was absolutely necessary, the German Government opened negotiations in England in regard to this loan.

From the competent authority it received a reply to the effect that, in view of the claims now advanced for the coming years, that is, the financial obligations of the German Government to the Reparation Commission, such a loan could not be obtained in England, either in the form of a long-dated loan or in the form of a short-dated bank credit.

Under these circumstances the German Government cannot anticipate the possibility of procuring the sums necessary for the total payment of the instalments of January 15 and February 15, 1922.

Even by exerting every effort, and without considering the requirements of her own budget, the German Government cannot procure for these instalments, apart from deliveries in kind and the credit derived from the "Recovery Acts," a sum of more than 150 or 200 million gold marks.

The German Government is therefore obliged to request the Reparation Commission to extend the time limit for the payment of the portion of the instalments of January 15 and February 15 which it cannot pay at those dates. It confines itself to this request, although it realises that similar difficulties will arise in connection with subsequent payments.

I have the honour, etc.

(Signed) WIRTH.

6.

**LETTER FROM THE REPARATION COMMISSION
TO THE GERMAN GOVERNMENT.**

December 16, 1921.

The Reparation Commission.
To the German Government.

The Reparation Commission has received the letter from the Chancellor dated December 14, announcing that the German Government is unable to pay in their entirety the instalments due, under the Schedule of Payments, on January 15 and February 15 next, and requesting the Reparation Commission to extend the time-limit for the payment of these instalments.

The Commission can but express its surprise that the Chancellor's letter contains no definite statement as to the currencies which the German Government would be able to pay at each of the above dates, as to the length of the extension requested for the payment of the balance, or as to the security to be offered in the meantime.

Unless and until the Commission receive definite information on these points, it will be impossible for it to give consideration to, or even to examine, the request of the German Government.

The Reparation Commission regrets to note that the Chancellor's letter makes no allusion to the measures which he has adopted or proposes to adopt in compliance with the views expressed by the Commission in its verbal statement of November 13 and in its letter of December 2, 1921. The Commission recommends this letter to the particular attention of the Chancellor.

(Signed) DUBOIS.
JOHN BRADBURY.

7.

**LETTER FROM THE CHAIRMAN OF THE KRIEG-
SLASTENKOMMISSION TO THE REPARATION
COMMISSION.(')**

SIR,

December 31, 1921.

I regret to inform you that I have thus far been unable to reach a solution with regard to the communication which I received from the Reparation Commission in reply to the question I brought up at the meeting held on December 29. I will take the liberty to refer once more to this matter next week.

(Signed) FISCHER.

(') At the request of the German Government, the Reparation Commission had granted a hearing to the German Delegates on December 29, 1921.

**LETTER FROM THE GERMAN GOVERNMENT
TO THE REPARATION COMMISSION.**

Paris, January 3, 1922.

To the Reparation Commission.

I have been instructed by the German Government to place the following facts before the Reparation Commission :

Since in its Note of December 14, 1921, the German Government submitted a request to the Reparation Commission for the suspension of payment of that part of the sums due according to the Schedule of Payments on January 15 and February 15, 1922, and not paid at those dates, and since the Reparation Commission, in its Note of December 16, called attention to certain points, which in its opinion should be settled before any decision could be adopted in regard to the above-mentioned request, preliminary negotiations have been opened between certain of the Allied Governments concerning important questions relating to reparation to be made by Germany. The Allies will shortly open official negotiations on these questions in their entirety.

Under these circumstances, the German Government has considered it advisable to obtain the approval of the Reparation Commission to the method of procedure to be applied to the question submitted. The Reparation Commission has left the decision to be adopted in this connection to the discretion of the German Government.

In its Note of December 16, the Reparation Commission referred to its verbal statements of November 13, as well as to the wishes expressed in its Note of December 2. In this connection, the German Government will transmit to the Reparation Commission documents showing the efforts which have been made and which will continue to be made by the German Government for the fulfilment of these wishes.

In the meantime, the German Government considers that it need fear no contradiction in expressing the opinion that the questions submitted by the Reparation Commission in its Note of December 16 relate to points which will be affected by the outcome of the discussions about to be held by the Supreme Council. The German Government considers, therefore, that it is advisable, for the present, for it to abstain from any decision in regard to these questions.

(Signed) FISCHER.

9.

**LETTER FROM THE REPARATION COMMISSION
TO THE GERMAN GOVERNMENT.**

January 6, 1922.

The Reparation Commission.

To the Kriegslastenkommission.

The Reparation Commission begs to acknowledge the receipt of the letter from the K.L.K., under date of January 3, stating that the German Government considers it best to abstain at the present moment from making any communication on the questions raised in the Reparation Commission's letter of December 16.

In reply, the Commission can only reiterate, without comment and without examining the reasons advanced by the K.L.K., its statement made verbally to the representatives of the German Government on December 29, to the effect that while it is for the German Government alone to determine whether it shall or shall not reply to the letter of December 16, and whether it shall reply now or later, the request of the German Government contained in its letter of December 14, that the time-limit for payment be extended, cannot be examined by the Commission until it has received the information requested in its letter of the 16th.

The Reparation Commission wishes, however, to point out to the German Government that in making the declaration referred to above it left to the latter the full responsibility for its decision.

(Signed) DUBOIS.
SALVAGO RAGGI.

10.

LETTER FROM THE KRIEGLASTENKOMMISSION TO THE REPARATION COMMISSION.

Paris, January 10, 1922.

To the Reparation Commission, Cannes.

In continuation of my letter No. K. 25 of January 3, 1922, I am instructed by the German Government to submit the following documents to the Reparation Commission :—

- (1) The draft budget of the Commonwealth for 1922. (¹)
- (2) A general commentary on this draft, submitted to the Reichsrat by the Government of the Commonwealth. (¹)
- (3) The budget for the execution of the Treaty of Versailles for 1922. (¹)
- (4) Comparative tables of the burden of direct taxation in Germany, France and Great Britain. (¹)
- (5) Two articles published in "Wirtschaft und Statistik," No. 12, on the inflation of the currency and the rate of exchange. (¹)

The purpose of these documents is to prove that the German Government has done all in its power to comply with the desire expressed by the Reparation Commission in its Note of December 2, to the effect that the German Government should take at once all necessary measures to place the currency system of Germany on a sound basis.

The following observation is called for in regard to the commentary referred to in No. 2 above : in drawing up the draft of the ordinary budget for the Postal and Telegraph Service it was anticipated that the expenditure would be in excess of the receipts to the extent of 2,180,655,424 marks. In the meantime the postal and telegraph rates have been so increased as from January 1, 1922, that the budget is now balanced.

Certain explanatory notes have been added to the comparative tables of the burden of the income tax referred to in No. 4.

The articles referred to in No. 5 are offered as corroboration in proof of the statement that the past and present depreciation of the mark in international exchange is due, in the last instance, to the fact that the supply is greater than the demand ; in other words, it is due to the state of the balance sheet of payments, and inflation, instead of being the cause of this phenomenon, is rather the consequence of it.

(Signed) FISCHER.

(¹) These various documents were too voluminous to be reproduced in the present publication. Some have already been published by the German Government. The remainder have appeared in the "Wirtschaft und Statistik."

11.

**DECISION OF JANUARY 13, 1922, FROM THE
REPARATION COMMISSION (NOTIFIED FORTH-
WITH TO THE REPRESENTATIVES OF THE
GERMAN GOVERNMENT).**

The Reparation Commission decides to grant to the German Government a provisional postponement of the instalments due on January 15 and February 15, 1922 (in so far as they are not covered by cash payments already made or which may be made, and by deliveries in kind and receipts under the Reparation Recovery Acts received or which may be received up to the respective due dates), subject to the following conditions :

- (a) During the period of provisional postponement the German Government shall pay, in approved foreign currencies, the amount of 31 millions of gold marks every ten days, the first payment being upon January 18, 1922.
- (b) The German Government shall, within a period of 15 days, submit to the Commission a scheme of budget and currency reform, with appropriate guarantees, as well as a complete programme of cash payments and deliveries in kind for the year 1922.
- (c) The period of provisional postponement shall end as soon as the Commission or the Allied Governments have taken a decision with regard to the scheme and programme indicated in paragraph (b).

Except and so far as may be otherwise provided in this decision, the difference between the amounts actually paid during the period of the provisional postponement and the sums due during the same period under the Schedule of Payments shall become due and payable within 15 days from the date of the decision of the Reparation Commission or of the Allied Governments, as the case may be.

When the scheme and programme referred to above have been received by the Reparation Commission, they will be immediately transmitted by the Commission to the Allied Governments, who will thus be in a position either to deal with the matter themselves or to refer it back to the Commission to be dealt with by the latter.

12.

REPORT SUBMITTED BY THE GERMAN GOVERNMENT IN ACCORDANCE WITH THE DECISION OF THE REPARATION COMMISSION OF JANUARY 13, 1922.

SCHEME FOR THE REFORM OF THE BUDGET AND THE PAPER CIRCULATION.

SCHEDULE OF PAYMENTS FOR THE YEAR 1922.

Berlin, January 28, 1922.

The Federal Chancellor,

To The Chairman of the Reparation Commission, Paris.

SIR,

By a decision adopted on January 13, 1922, the Reparation Commission granted to the German Government a provisional extension for the payment of the two instalments due on January 15 and February 15, 1922, provided that the German Government submitted, within 15 days:

- (a) A scheme of reform, with adequate guarantees, for its Budget and paper circulation;
- (b) A complete Schedule of Payments in cash and deliveries in kind for the year 1922.

In the present Note the German Government complies with this request.

I.—REFORM OF THE BUDGET AND OF THE PAPER CIRCULATION.

By overcoming difficulties of a very serious nature, the German Government, together with the Reichstag, have succeeded in obtaining a fundamental reform of the finances of the Commonwealth, a task which was commenced in 1919. This reform, which imposes heavy sacrifices on the German people, is for the purpose of balancing the Budget of the Commonwealth. To this end, receipts have been increased to the utmost and expenses reduced to the minimum. Extraordinary requirements will not be met exclusively by the issue of short term Treasury drafts, but, in so far as is possible, by means of loans.

1. Increased Receipts:

The total returns from taxes on capital and income will be considerably increased by the extension of the German fiscal system resulting from the bills now being considered by the Reichstag (tax on wealth, tax on increased wealth, tax on increased capital and corporation tax). This scheme is under consideration, although at

the Brussels Conference held in December, 1920, the experts of the Allied Governments admitted that the burden on the German taxpayer could not be further increased by means of direct taxation.

On account of the tax on increased wealth, the German taxpayer is, to a considerable extent, obliged to live on his capital. This has such an effect on the income of each individual taxpayer that any tax whatsoever on consumption is all the more onerous. Both production and consumption in Germany are, to a great extent, subject to preliminary taxation on account of the tax on turnover, which is to be increased from $1\frac{1}{2}$ per cent. to 2 per cent., as well as on account of the tax on coal, which, according to the Bill, is to be increased from 20 per cent. to 40 per cent.

The Bills now being considered by the Reichstag provide for a very appreciable increase in important Customs duties and taxes on consumption. The Customs duties will be collected on an actual gold basis.

Under these circumstances, the consumption of the German people, whose power to purchase has, moreover, been reduced, is subject to a total fiscal burden whose weight equals at least that of the total indirect taxes imposed on the taxpayer of any other country whatsoever.

The execution of the fiscal laws is henceforth ensured. Notwithstanding all obstacles, the indispensable work of transforming the respective fiscal administrations of the Federated States into the central fiscal administration of the Commonwealth is, practically speaking, an accomplished fact. The collection of taxes is, to a remarkable extent, carried out at the source itself. A strict system of official supervision has made it possible to obtain an ever closer approximation between the amounts assessed and collected and those declared by the taxpayers.

Energetic measures have been adopted in order to stop migration of capital and evasion of taxes. In particular, the obligation of banks to keep the affairs of their clients secret has been abolished by law; securities deposited at the banks are supervised by the Treasury. By means of international agreement (mutual legal assistance) the German Government is endeavouring to regain capital which has already been migrated.

The fiscal programme, the main points of which are summarised above, is given in Annex I.

As soon as the increase in rates is an accomplished fact, the tariffs of the postal and railway administration will, in relation to pre-war rates, be increased as follows: For the transport of passengers by rail, 15 to 19 times the pre-war rates, for the transport of goods by rail, 32 times the pre-war rate, and 21 times the pre-war rate for the postal and telegraph service.

2. *Reduction of Expenditure:*

Provisions of the budgetary law prescribe measures to be adopted in order to reduce the number of officials.

According to a special scheme, the system of subsidies granted up to the present in order to reduce the cost of foodstuffs, will be abolished during the financial year 1922. During the year 1921 these subsidies amounted to about 22.5 milliard paper marks. Unless there is a further depreciation of the mark, these subsidies will be covered by an expenditure of 1 milliard paper marks. For this purpose, there will be a further increase of 75 per cent. in the price of bread as from February 16, 1922.

In the place of assistance given to unemployed by means of subsidies drawn from public funds, a system of insurance against unemployment will be introduced in 1922, the charges for which will for the most part be borne by employers and employed.

In spite of the considerable fall in the value of national currency which has taken place meanwhile, the extraordinary expenses of the general administration of the Reich have been reduced to such an extent that they constitute only one-third of those of the preceding year; in other words, they do not amount to more than 3 milliard paper marks.

As regards the postal and railway departments, reforms are being carried out at the present moment which are likely to result in a reduction of expenditure, so that, as from April 1, 1922, working expenses will be covered by receipts. Extraordinary expenditure has been fixed at as low a figure as possible. This amounts to only one-third of the original value (capital employed for construction), whereas it amounted to 3 per cent. before the war.

Rigorous measures have been inserted in a bill submitted to the Reichsrat in order to ensure that the budget estimate should be made on as economical a basis as possible.

In this way the budget estimate for the Reich for 1922 shows an excess amount of 16½ milliard paper marks to cover expenses incurred or to be incurred to meet the general obligation of the Peace Treaty and reparation payments. 86.7 milliards, representing current expenses, are covered by ordinary receipts amounting to 103.2 milliards.

3. Reduction of the floating debt and note circulation.

During 1922, the German Government will endeavour to float an internal loan. The "Saving's Certificate Loan" (Sparprämienanleihe) issued at the end of 1919, has, in spite of its very attractive nature, only resulted in receipts amounting to 1.8 milliards in cash. This loan, therefore, must be considered as a failure. It will only be possible to float an internal loan when confidence in the economic and financial revival of Germany has been restored, and when an assurance exists that the terms of the Treaty of Versailles will not injure the service of interest of a consolidated loan of the Reich. Independently of the question as to whether a free loan can be placed on the market, the German Government will proceed to the issue of a forced loan, the revenue

of which will be used to stop the increase of the floating debt. The German Government has decided to proceed to this extreme measure, which cannot be repeated, in order to be able to meet its reparation payments, at least for 1922, with the least possible recourse to the printing press.

The German Government will take into account the scruples of the Allied Governments with regard to the legal dependence of the Reichsbank on the Chancellor of the Reich. It will submit for the approval of the Reichstag a draft law, which, when voted, will abrogate the privilege now enjoyed, from a legal point of view by the Commonwealth Chancellor, namely, the right to interfere in the business of the Reichsbank and will in other words have the effect of establishing the independence of the Reichsbank.

With regard to the general measures intended to restore the Commonwealth finances to a sound basis, the other documents enclosed herewith give the necessary information.

The execution of all these proposed measures constitutes the guarantee that the German Government has done and will do all that can fairly be expected in order to reduce the floating debt and to stop the printing of new notes.

Moreover, the German Government will take the necessary steps to ensure the prompt publication, for the future, of exact statistics relating to the economic and financial situation in Germany, as pre-war times.

II.—PROGRAMME FOR REPARATION TO BE EFFECTED IN 1922.

The reform in the Budget of the Commonwealth which has been set forth above, constitutes the guarantee that Germany will be in a position to meet her financial liabilities at home. This reform, however, cannot ensure the sound financing of the reparation to be effected.

Practically the whole of the revenue which enters the coffers of the Commonwealth consists of fiduciary currency, with which it is impossible, in view of the almost complete depreciation of the mark, to effect reparation payments in gold marks.

On several occasions, the most recent being at Cannes, the German Government has set forth in detail the causes of the collapse of the mark, which constitute the real reason why, in spite of the utmost efforts, Germany is, at the present time, unable to make reparation in full. The chief factors which give rise to this inability are as follows :—

As regards raw material—with the exception of coal—Germany now possesses but little. An appreciable falling off has been noted in general productivity, more especially for agricultural concerns. The essential requirements in raw materials and foodstuffs to be imported amount to 5 milliard marks yearly (2½ millions each). The total value of exports, which in 1913 came to 10 milliard gold

marks in round figures, shows a decrease which reduces it to about 4 milliard gold marks. Taking into account the general rise of prices on the world market, this decrease signifies that the present exports no longer represent more than a quarter of the pre-war exports.

The payments at present show a debit balance of about 2 milliard gold marks.

This debit balance prevents the permanent stabilisation of the mark.

In these circumstances, every large payment in foreign currency entails a fresh fall in the rate of the mark, while at the same time it causes a depreciation of all the internal revenues, increases all expenditure, adds to inflation and thereby weakens more and more Germany's capacity to make reparation. Viewing the reparation problem from the standpoint of political economy, it will inevitably become evident that it is necessary to release Germany for a fairly prolonged period, at least for the whole of 1922, from her obligation to make any payments whatever in cash as reparation.

The German Government, however, does not refuse to recognise that in view of the present state of affairs, it will be obliged, in order to be able to take into account political necessities, to relegate to the background even the gravest scruples concerning the economic life and the finances of the Commonwealth.

The German Government is not unaware that the following figures were considered by the Allies at Cannes as the German contribution to reparation during 1922 :—

720 million gold marks in cash payments.

Up to 1,450 million gold marks in deliveries in kind.

The German Government considers itself bound to point out that even after carrying out the reform of its internal finances, it would be obliged, in order to assemble the funds required for such an enormous contribution, to resort to a large extent, to an increase of the floating debt, and that, therefore, it is compelled to request the Allies to fix the cash payments to be effected by Germany at lower figures, making, if necessary, a corresponding increase in the quantity of deliveries in kind to correspond.

In whatever way the contribution to reparation for 1922 may be determined, the German Government, after preliminary negotiations, proposes the following programme from the conditions of payment :—

- (a) Payments in cash and in kind already made, or remaining to be made, in respect of the instalments due on January 15, and February 15, 1922, will be counted in with the sums to be fixed. The cash payments still to be made in the course of the year 1922 will therefore be distributed uniformly over each of the months of 1922.

- (b) The costs necessitated by the armies of occupation and repayable in foreign currency will be counted in with the total contributions for 1922. The contributions to the costs of the Armies of Occupation payable in paper marks will be reduced considerably.
- (c) The remainder of the financial obligations under the Peace Treaty which have to be met in foreign currency, in particular the pecuniary charges resulting from the clearing operations, will, by means of special agreements, be reduced so as to be tolerable.

As regards payment in kind, Germany once more gives an assurance of her eagerness to collaborate with all her might and by all means in her power in the task of reconstructing the devastated regions. It was this idea which inspired the conclusion of the Wiesbaden Agreement. The German Government is prepared to conclude conventions with other Allied Powers regarding deliveries in kind.

When fixing the total amount of deliveries in kind, it must not be forgotten that in so far as these necessitate the use of foreign raw materials they also necessitate payments in gold. The German Government has the honour to request the Allied Governments to determine the amount of deliveries in kind separately for each country concerned and to insist upon fulfilment only in so far as they can really make use of the products in the course of 1922.

III.

The German Government is of the opinion that the settlement of the German contribution to reparation during 1922 alone constitutes only the first step towards the solution of the reparation problem. The programme for 1922 is based upon a system, the effects of which—as the experiments which have been made demonstrate—are seriously impairing Germany's capacity to make reparation. Payments in foreign currency, which have to be made periodically, that is, monthly or quarterly, for reparation purposes, prevent Germany from restoring order to her finances. It would therefore seem that it is to the interest of all the countries concerned to make efforts—while adopting a different basis and making provision for a more extended time-limit—to place Germany in a position to make reparation. It would, moreover, be well to proceed to these measures very speedily, in view of the fact that the uncertainty as to whether Germany will be able, after 1923, to fulfil her obligations, is having a paralysing effect upon the economic and financial situation, not only of Germany, but also of the Allied countries.

It is only on condition that recourse is had to domestic and foreign credit in order to bring to a successful conclusion financial operations on a large scale that Germany will be in a position to

fulfil the task of reparation. At present, however, neither the German capitalists nor the foreign capitalists desirous of making investments, consider Germany worthy of credit. A universal distrust is making itself felt; everyone doubts whether Germany will be able to recover, in present circumstances, economic weapons sufficient to make her a solvent debtor in a loan contracted on a large scale for reparation purposes. To restore confidence in Germany's solvency to the world at large is essential to a satisfactory solution of the problem.

This is why the German Government begs the Reparation Commission to give particular attention to these considerations so that a way may be found which will ensure the re-establishment of Germany's credit both with her own nationals and abroad, and so that international co-operation may make it possible to issue a loan on a large scale for reparation purposes.

I have the honour to be, etc.,

(Signed) Dr. WIRTH.

ANNEX I.

A.—SYSTEM OF TAXATION.

1. *Direct Taxes.*

According to paragraph 12, sub-paragraph 2 (b), Annex II, of Article 233 of the Treaty of Versailles, the Reparation Commission, in estimating Germany's capacity to pay, should ensure "that in general the German scheme of taxation is fully as heavy proportionately as that of any of the Powers represented on the Commission." In order to make the budget for the external and internal burdens of Germany as productive as possible, the taxes on property were raised to such an extent in 1919, that the experts of the Allied Powers at the Brussels Conference in 1920 arrived at the conclusion that "the present rates of direct taxation appear to be at their maximum; perhaps, indeed, when the new assessment has been made, and the taxes are in full operation, it will be found that, in the interest of revenue, which is intimately connected with Germany's economic prosperity, some diminution of certain direct taxes—particularly those which affect industry and commerce—must be considered." The German Government, realising that it is necessary for Germany to make the greatest possible economic effort to make reparation payments, has striven to extend the entire system of taxation, including direct taxation. This endeavour has been carried out in order to make the system of taxation of 1919-1920 correspond to altered circumstances and so to improve it that the amounts necessary for the budget may, as far as possible, be permanently secured.

This object is served in particular by the bills submitted to the Reichstag with regard to taxes on wealth, tax on increase in wealth and tax on the transfer of personal property against payment, which together with the existing death duties constitutes a tax on property more extensive than has hitherto existed in any country in the world. Sub-Annex I gives further particulars of the whole of the measures taken with regard to taxation levied by Germany. It is scarcely necessary to show in detail that this taxation of acquired wealth is considerably higher than that of any of the countries represented on the Reparation Commission. The taxes on wealth, in particular the permanent tax on wealth, so diminish the income of the taxpayer that this must be an appreciable factor if comparison is made between the countries represented on the Reparation Commission and Germany.

The significance of the fiscal measures adopted by Germany are particularly clear when it is borne in mind that even without regard to the burden already mentioned and the burden resulting from the Corporation tax (tax on the receipts of companies), the tax on the income of private persons alone is considerably more severe in Germany than in other countries. This is rendered clear in regard to France and Great Britain by the tables appended to Sub-Annex 2, already communicated in part by the Kriegslastenkommission in its Note No. K. 60 of January 16, 1922 (the data are extended to include Great Britain, *see* pages 2 and 3).

An attempt has been made in the tables to arrive at truly comparable magnitudes by reckoning the burden of taxation, bearing in mind the internal purchasing power of money in the countries under consideration.

The index figure of 2067 has been adopted for Germany, 345 for France, and 182 for Great Britain. These figures correspond to the indices of wholesale prices for September, 1921. While these prices may not necessarily represent a generally valid basis for calculation of the internal purchasing power of money, nevertheless the movement of wholesale prices in general has a decisive influence on the level of prices and makes itself felt in the long run. In any case in this way more reliable results are obtained than by means of a comparison in which the amount of taxes to be paid has been converted at the rate of the day into the currency of a country with a stable exchange, *e.g.*, the American dollar. This method is of no value for this purpose, on account of the considerable fluctuation in foreign exchange and also on account of the extraordinary difference between the external and internal purchasing power of money. Moreover, this method would, if not applied to taxes but to the property and income liable to be taxed, make German rates seem relatively much more severe.

If wholesale prices are taken as an index, the depreciation of currency in Germany is about six times as great as in France and eleven times as great as in England. A gold franc corresponded

approximately to 0·80 gold marks, and one gold shilling to approximately one gold mark; therefore, in view of the depreciation of currency, one paper franc is equivalent to five paper marks and one paper shilling to eleven paper marks. This comparative value is shown in the annexed tables. A complete and definite idea of the severity with which private incomes in Germany are subject to taxation, is however no longer apparent in the tables, owing to the rapid depreciation in the internal purchasing power of money since September, 1921. For example, the index figure for November, 1921, was 3416. If this figure were adopted, the index of taxation would appear still more severe in Germany, as compared with those of France and Great Britain.

The attached tables have been drawn up on the basis of the Law of December 20, 1921, by which the last modification was made in the German Income Tax. This change was due to economic necessity: the Income Tax law of 1920, which was introduced in 1919, dealt with the mark on the assumption that its internal purchasing power was only temporarily affected and that in the long run it would have the purchasing power of the mark in times of peace. The Allied experts at the Brussels Conference based their above-mentioned report on the system of direct taxation in Germany on these rates.

In the period between 1919 and September, 1921, the purchasing power of the German mark has decreased to less than the twentieth part of the value of the mark in peace time. The retention of the old rates under these circumstances would have the result, for example, that an income which possessed the purchasing power of only 5,000 marks in peace time, would have been taxed as if it were worth 100,000 marks. In order to avoid such unbearable overtaxation which, for economic, social and psychological reasons could not have been effected, the rate has, on the initiative of the Reichstag, been changed in such a way that the Income Tax corresponds at least to a certain extent to the purchasing power of the income.

This measure has, however, been imperfectly carried out and consequently at the present moment the rate for the year 1921 is more severe than that of the year 1919 to 1920.

The severity with which the German rate has been maintained is also shown in the annexed comparative tables.

We need only quote the following example: In Germany an unmarried taxpayer who receives an income of 30,000 marks as pay or salary, pays 2,220 marks in direct taxes, *i.e.*, the burden on his income through the Income Tax alone amounts to 7·4 per cent. If this income is reckoned with reference to the factors of depreciation in francs or shillings, it follows that a person with an income with a similar purchasing power in France and England would have no Income Tax to pay at all (*see* Sub-Annex 2).

In the case of a wage income of 100,000 marks, should the taxpayer be unmarried and over 30 years of age, a tax is levied in Germany of 15,500 marks; and in France and England in the case of an income with a similar purchasing power, 1,110 francs or 945 shillings, *i.e.*, the burden in Germany amounts to 15.50 per cent., in France 5.55 per cent. and England 10.50 per cent. Should the taxpayer be married and have two children then the tax in Germany amounts to 14,780 marks, in France to 809 francs and in England to 351 shillings, *i.e.*, the percentage or burden would amount in Germany to 14.78, in France to 4.05, and in England to 3.90. Taking industrial profits in the three countries, it is seen that an unmarried industrialist having an income of one million marks, pays 385,000 marks Income Tax, whereas for the corresponding income the tax in France would be 50,745 francs and in England 30,065 shillings, *i.e.*, the taxation in Germany amounts to 38.55 per cent., in France to 25.37 per cent., and in England to 33.41 per cent. Should the taxpayer be married and the father of two children, the tax percentage in Germany to 38.55, whereas in France it amounts to 20.15 per cent., and in England to 32.39 per cent.

2. *Taxes on consumption, traffic and customs.*

The burden of the German taxpayer with property taxes must not be forgotten when the taxes on consumption are considered. The extension of the system of taxation, on the whole, finds its natural limit in the economic capacity of those who eventually bear the burden of the tax.

The consumer is affected by both direct and indirect taxes (including Customs).

Every comparison of the burden of taxation which is limited to taxes on consumption or even to certain of such taxes is therefore necessarily misleading. The apparent lightness of the burden is amply explained if it is borne in mind how differently such a figure must be judged according as the consumption per head of the taxed article is greater or less in the countries under consideration. On account of the economic distress of Germany the total consumption in comparison to pre-war time has considerably decreased.

The fact of a smaller revenue from consumption taxes per head of the population does not therefore justify the supposition that a smaller tax has been levied, but merely proves a diminished consumption and indicates therefore a more unfavourable economic situation of the taxpayer. Moreover, the consumption of goods of a definite kind is not everywhere governed by the same conditions. In rich or climatically favoured countries certain articles of food other than those of first necessity which contribute to the maintenance of activity and efficiency of labour are easily accessible to all.

Germany is not rich in goods of this sort. It is therefore necessary in the interests of the efficiency of labour, valuable moreover for reparation payments, that a certain consumption of

luxuries should be allowed, the taxation of which is so arranged that it is possible for the inhabitants to avail themselves of them. In consequence of the levying of all Customs in gold, consumption is necessarily limited to home manufactures. Thus, according to the proposals of the Government, coffee, tea and cocoa are taxed to such a degree as to make them unobtainable by the great majority of people. Moreover, the consumption of imported tobacco products is reduced by Customs and exchange.

In addition to the objections to the special comparison of taxes on consumption levied on general economic grounds, it should be noted that a technically exact comparison of single taxes can produce no useful results, because in Germany the coal tax and the turnover tax represent a very heavy handicap on consumption individually and generally to the extent of 40 per cent. and 2½ per cent. respectively, whereas in none of the countries compared is the tax on coal levied at all, while in England there is no turnover tax, and in Belgium, France and Italy the rate is not comparable to that levied in Germany. With regard to the bills presented to the Reichstag (*see* Sub-Annex 1) and the levying of customs in gold, it may be stated that Germany has increased the tax on consumption as far as possible.

Therefore, according to what has been said above, the amount of taxation levied in a particular country can only be determined if the average income per head is known, as well as the amount of taxation arising out of direct and indirect taxes levied on this income, and the sum remaining for purposes of livelihood after deduction of these taxes.

Reliable statistics with regard to average income are not at present available either for Germany or for the countries under consideration. Efforts to obtain such an estimate on a basis entirely free from scientific objection have up to date led to no result on the part of the Allied experts. In Germany also such figures are not available. As regards the average income earned in Germany and France, it must be borne in mind that according to age the number of independent earnings of income in Germany in comparison with the number of the total population is smaller than in France, and that with regard to the predominating agricultural character of France, the real wage, which is not expressed in nominal wages according to its actual value, plays a greater rôle than in Germany.

That varied results can be arrived at in calculating an average income is shown (quite apart from German estimates) by the figures which have been furnished by the Secretariat of the League of Nations on the one hand and by French experts on the other. The Secretariat of the League of Nations estimates the average income in France at 3,200 francs and that in Germany at 3,900 marks, whereas French experts estimate the average income in France at 2,700 francs and that in Germany at 5,200 marks. These calculations are made out for the year 1921. In applying

these figures to the year 1922, the circumstance must be taken into consideration that with regard to the considerable inflation which has occurred meanwhile in Germany, an increase must be reckoned with in the nominal average income. This increase, although actually far lower, must be reckoned at a third for the whole national income and therefore also for the average income. Accordingly, for the year 1922, on the basis of total receipts from taxes amounting to 97,328 million marks in Germany and to 18,000 million francs in France, the following figures are obtained :

(a) On the basis of the figures of the League of Nations :

National income in Germany	... 312 milliard marks.
„ „ France	... 128 „ francs.

according to which the proportion of tax on the national income in Germany is 30·77 per cent. and in France 14·06 per cent.

(b) On the basis of the figures of the French experts :

National income in Germany	... 416 milliard marks.
„ „ France	... 108 „ francs.

the proportion of taxes in Germany accordingly being 23·07 per cent. and in France 16·66 per cent.

In both cases it would therefore appear that the national income is taxed more heavily in Germany than in France.

If it is calculated what remains to each individual, on an average, for means of livelihood, after deduction of taxation, the following result is obtained, bearing in mind the internal purchasing power of money, 1 franc equal to 5 marks :

(a) According to the figures of the League of Nations :

For the Germans	... 3,578 marks and
„ French	... 2,749 francs = 13,745 marks.

(b) According to the figures of the French experts :

For the Germans	... 5,311 marks and
„ French	... 2,249 francs = 11,225 marks.

B.—EXECUTION OF THE TAX LAWS.

(a) *Point reached in the work of assessment and collection.*—The organisation of the taxes, which had to be transferred from the Federal States to the Commonwealth, in the interests of a clear definition of taxation authority in all parts of the Reich, has been pushed forward by the Government with the greatest energy. Extraordinary difficulties were inevitable in carrying out the tax laws in Germany, because the burden of taxation and the work connected with it increased at the time when it was necessary to be organising the official machinery. Similar difficulties have arisen in other countries which have completed the organisation of their tax systems only in part, and have not been compelled to undertake such a far reaching revision of their organisation. The national tax authorities have, however, come very near to the point

of being able to assess the great permanent taxes at regular intervals. All the official bodies have made a great effort, and have succeeded in finishing the preparatory work for the great extraordinary taxes of the year 1919. The final assessment for the National Income Tax for the fiscal year 1920 has been practically finished.

The collection of this tax will follow immediately. In accordance with the Income Tax Law the assessment for 1920 will be taken as the provisional assessment for the subsequent fiscal years. In this way all incomes will be reached; wages, through partial retention, and other incomes through continuous payments on successive demands. The assessment of the Income Tax for 1921 will follow immediately on the assessment for 1920, and will be carried out, at latest, by the middle of 1922. From then on there will be a regular sequence of assessments. This is true also for the turnover tax which will soon be assessed and levied at regular intervals, and will, according to the Bill before the Reichstag, have to be paid at the same time as the current payments. The assessment of the Coal Tax naturally depends on the kind of goods subject to the tax (home consumed or sold). The return is thus uncertain. It is a first necessity for the future smooth working of the official machinery that the labour available be not burdened with further tasks, and that time be given for the necessary work on the existing taxes, since extraordinary demands are now being made on the personnel. It must, then, be a first principle for the tax legislation of the Commonwealth that only such taxes be imposed as can be completely levied within the periods laid down in the Law.

Sub-Annex 3 shows that only 3·5 per cent. of the receipts are expended on the Revenue Offices; the Customs demand 5·8 of their receipts for their purposes, but it should be noted that this authority has to provide for the protection of the whole frontier, both from a Customs and from an economic point of view (carrying out the export and import prohibitions). Even if we look at the non-recurring expenditure, we see that the costs of the Revenue Offices come to only 3·7 per cent., while the Customs expenses come to 6·4 per cent. of the receipts. The average cost for the whole finance machinery is 4·4 per cent. of the receipts.

(b) *Stricter executive measures.*—Decisive efforts will be made to proceed with the struggle against evasion and fraud, by having recourse to the provisions of the Commonwealth Tax Ordinance (Reichsabgabenordnung). For this purpose the measures for police supervision of finance, the Intelligence Service, and the methods of search have been unified or established. The control of the books and businesses of taxpayers will be made more strict. The control of books and undertakings is carried out by a body of tax experts, entrusted with the discovery of mistakes in the tax declarations. The Finance Authorities are extending this branch

of the control by setting up a central control office which will make use of all experience in this direction, and are developing the practical and theoretical instruction of their officers. The same end is served by the supervision methods adopted for the Turnover Tax.

C.—MEASURES AGAINST THE MIGRATION OF CAPITAL.

A detailed account is given in Sub-Annex 4 of the state of the law against the migration of capital and of the measures which have been taken to this effect.

The Commonwealth Government is inclined to treat German capital abroad on the basis of its tax liability, with a view to relieving the nation of its burden. The Brussels Finance Conference was of the opinion that an international agreement was worth striving for, whereby the payment of full taxation would be guaranteed from everybody and double taxation would be avoided. In this direction the Commonwealth Government has been working since 1919. Article 7 of the Commonwealth Taxation Ordinance has given the Government the necessary powers for this purpose. In accordance with this Article it has entered into relations with most foreign Governments and has striven to make agreements for the avoidance of double taxation and for mutual legal help in taxation matters, especially in the matter of levying taxes in cases of capital and tax evasion. A Treaty of this kind has just been concluded with the Czecho-Slovak Republic. The formula for such an agreement for legal assistance is given in Sub-Annex 5.

SUB-ANNEX I.

THE DEVELOPMENT OF GERMANY'S SYSTEM OF TAXATION.

TAXES IN GERMANY IN VIEW OF THE NEW BILLS FOR TAXATION.

Receipts in taxes of the Commonwealth according to the draft budget drawn up by the General Financial Administration for 1922.

NATURE OF INCOME.					AMOUNT IN MARKS.
1. Income Tax	...	...	...	...	23,000,000,000
2. Corporation Tax	...	...	...	...	4,000,000,000
3. Tax on income from capital	...	...	...	...	1,530,000,000
4. Reichsnotopfer	...	...	...	...	8,000,000,000
5. Property Tax	...	...	...	...	20,000,000
6. Succession duties	...	...	...	...	700,000,000
7. (a) Turnover Tax (exclusive of Hotel Tax)	...	...	...	...	24,000,000,000
(b) Hotel Tax	...	...	...	...	500,000,000
8. Tax on transfer of real property	...	...	...	...	550,000,000

NATURE OF INCOME.					AMOUNT IN MARKS.
9. Tax on movement of capital :					
(a) Tax on companies					1,067,350,000
(b) Tax on securities					117,850,000
(c) Stock Exchange Turnover Tax					1,075,300,000
(d) Tax on Board of Directors					50,300,000
(e) Tax on industrial acquisitions					50,000,000
10. Tax on motor vehicles					125,000,000
11. Insurance Tax					380,000,000
12. Betting and Lottery Tax :					
(a) Betting Tax					215,000,000
(b) Lottery Tax					60,000,000
13. Tax on stamps on Bills of Exchange					30,000,000
14. Stamps on bills of lading					100,000,000
15. Transport of passengers and goods :					
(a) Passenger transport					1,000,000,000
(b) Goods transport					1,600,000,000
16. Tax on increment to real property					—
Total (a)					68,170,800,000
17. War levy on capital increment					—
18. Extraordinary war levy, 1919					—
19. " " 1918					—
20. Supplement on the extraordinary war levy, 1916					—
21. War levy for 1916					—
22. Tax on capital increment obtained after the war					3,000,000,000
Total (b)					3,000,000,000
23. Customs					7,000,000,000
24. Tax on coal					10,150,000,000
25. Tax on tobacco					3,500,000,000
26. Tax on beer					1,000,000,000
27. Tax on wines					500,000,000
28. Tax on sparkling wines					100,000,000
29. Tax on mineral waters					60,000,000
30. Tax on spirits					1,748,000,000
31. Tax on acetic acid					47,200,000
32. Tax on sugar					1,000,000,000
33. Tax on salt					60,000,000
34. Tax on matches					110,000,000
35. Tax on lighting apparatus					60,000,000
36. Tax on playing cards					10,000,000

NATURE OF INCOME.	AMOUNT IN MARKS.
37. Statistical charges	12,000,000
38. Monopoly on sweetening materials	100,000,000
39. Levy on exports in so far as levied by Customs	700,000,000
TOTAL (c)	26,157,200,000
GRAND TOTAL	97,328,000,000 ⁽¹⁾

I.—DIRECT TAXES AND TAXES ON TRANSACTIONS.

1. *Income Tax.*

In 1914 the Income Tax was levied by the Federal States.

The scale of taxation and the maximum rates differed according to the Federal States concerned sometimes amounting to as much as 4 per cent.

Taking into account the supplementary percentages levied on behalf of the communes and autonomous bodies was the total levy : 8 to 9 per cent.

Legislation now in force : the law of March 30, 1920, rendering March 29, 1920, amended by the laws of March 31, 1920 ; July 21, 1920 ; March 24, 1921 ; December 20, 1921 ; also the law of July 11, 1921, on Income Tax on wages.

Liable to taxation : all natural persons.

Rate of taxation : 10-60 per cent.

Each taxpayer is entitled to abatement for himself and his wife to the amount of 240 marks each for incomes not exceeding 50,000 marks, 360 marks for each minor child for incomes not exceeding 200,000 marks. The abatements for the wife and minor children will be granted regularly in so far as these are not independently liable to assessment for Income Tax.

2. *Corporation Tax.*

In 1914 this tax was partly included in the Income Tax of the Federal States.

Legislation now in force : the law of March 30, 1920, rendering liable to taxation the annual incomes of legal persons and associations of persons having no legal status, &c.

⁽¹⁾ The taxation compromise of the parties in the Reichstag with regard to the bills which are now before it (*vide* speech of the Chancellor in the sitting of the Reichstag of January 26, 1922) may lead to the result that the tax mentioned under No. 22 may not be approved, and that the proposals of the Government of the Commonwealth may also undergo certain alterations. With regard to the total revenue which is shown for the taxes in this list, no alteration will take place, as the estimates have already been made some time, and will be exceeded on account of the increased depreciation of money which has taken place meanwhile.

The rate of taxation is : 10 per cent. of the total taxable income. Companies run for profit, especially joint stock companies, limited liability companies and mining companies are liable to a supplementary tax of 2-10 per cent. of the dividends distributed.

In a bill for the amendment of the law on the Corporation Tax, it is proposed to increase to 30 per cent. the rate of taxation for companies run for profit.

3. *Tax on Income from Capital.*

In 1914 a tax on income from capital was levied by certain Federal States with supplements levied on behalf of the Communes.

The rate of taxation varied from $\frac{1}{3}$ -4 per cent.

Legislation now in force : Law of March 29, 1920, regarding the tax on income from capital levied on behalf of the Commonwealth on all income from capital including interest on the Commonwealth and State loans

The rate of taxation is 10 per cent.

4. *Reichsnotopfer.*

I. In 1914 the following taxes were instituted.

In *Prussia* and many other *Federal States* :

(a) An annual tax on capital supplementary to the Income Tax, which could be paid regularly out of income owing to its low rate ;

In the *Commonwealth* :

(b) The exceptional army supplement (Law of July 3, 1913) the rate of which rose from 0.15 per cent. on the first 50,000 marks to 1.5 per cent. on more than 10 million marks of capital ;

(c) The property tax (*see* No. 5).

II. Since 1914, the following Commonwealth Taxes have been levied :

A.—Exceptional War Taxes.

(a) War levy 1916 (*see* No. 21).

Levied on the capital increment for the period from December 31, 1913, to December 31, 1916, and on that part of the capital in excess of 90 per cent. of the capital ascertained at the last assessment of the tax on increment, and on the excess war profits of legal persons.

The rate of taxation amounted to from 5 to 30 per cent. in the case of natural persons and to 1 per cent. in the case of legal persons.

(b) Supplement to the exceptional war levy of 1916 amounting to 20 per cent.

(c) Exceptional war levy of 1918 (*see* No. 19) 5 to 50 per cent. (in the case of companies, up to 60 per cent.) on exceptional profits (the difference between pre-war and war profits). In addition a levy of 1-5 per thousand on the total capital.

B.—Exceptional Taxes after the War.

(a) Exceptional war tax 1919 (*see* No. 18), instituting a levy of from 5 to 70 per cent. (in the case of companies 80 per cent.) on exceptional or supplementary profits.

(b) War tax on capital increment (*see* No. 17), instituting a levy of from 10 per cent. to 100 per cent. on the increment for the period from December 31, 1913, to June 30, 1919.

III. *Legislation now in force*: Law on the Reichsnotopfer of December 31, 1919, amended by the laws of December 22, 1920, and July 6, 1921.

10-65 per cent. exceptional tax on capital as on December 31, 1919. The law of December 31 had instituted payment of the tax by means of annual amortisation instalments extending over 30 years. According to the amendments introduced by the law of December 22, 1920, on the assessment and expeditious collection of the Reichsnotopfer, the tax is collected immediately, in so far as it does not exceed 10 per cent. of the taxable capital. The sum thus collected, however, shall not be less than a third of the total amount of the tax; the remainder to be paid in annual instalments.

IV. There is a proposal before the Reichstag for the revocation of the Law on the Reichsnotopfer and the introduction of an annual property tax. Estates of 1,027,000 marks and over must still, however, pay 7 per cent. of the Notopfer in the fiscal year 1921. From 1923 onwards an annual capital tax will be levied and, for a period of 15 years a supplementary tax will be added to replace the remainder of the Reichsnotopfer, taking into account the pecuniary situation of the taxpayer at the time.

According to this proposal any portion of the capital of natural and legal persons exceeding 100,000 marks is subject to taxation.

The tax which will be reassessed every three years will be at the rate of 1-10 per cent.

The supplementary tax to be levied during the first 15 years will be at the rate of 100-300 per cent. (*see* p. 69).

5. *Property Tax* (*see also* No. 4 I c).

Legislation now in force: Law of July 3, 1913, amended by the law of April 3, 1920, instituting a permanent tax of from 0.75 per cent. to 2.5 per cent., on the capital increment occurring within a period of three years, when the increment exceeds 10,000 marks. Capital not exceeding 20,000 marks is free of taxation.

It is proposed that from 1923 onwards the law on the property tax shall be superseded by the new law on the capital increment tax, now before the Reichstag, and which is adapted to the provisions of the new law on the tax on capital (*see* No. 4, IV).

According to this law, the capital increment during a period of three years is subject to taxation of from 1-10 per cent., in so far as the increment amounts to more than 50,000 marks, and the capital to more than 100,000 marks, or, in the case of persons incapable of earning, 200,000 marks.

6. Succession Duties.

In 1914.—Law of June 3, 1906, amended by law of July 3, 1913, instituting a tax of 4 to 30 per cent., exclusive of the supplementary taxes levied by some Federal States. *Legislation now in force*: Commonwealth Succession Tax Law of September 10, 1919. This law extends the existing taxation of property acquired by death and from gifts to children and wives; increases the rate of taxation, taking into account the capital belonging to the person acquiring the inheritance at the time of acquisition and institutes an additional tax on the estate.

The rate of taxation rises in the case of legacy duty from 4 to 70 per cent. and in the case of tax on estate 1 to 5 per cent.

The total amount to be paid by the legatee shall not exceed 90 per cent. of the legacy.

Gifts are taxed as legacies.

6 (a) Other direct taxes.

In 1914 the Commonwealth levied a tax on the increment to real estate, collecting from 10 to 30 per cent. on the unearned increment to real estate. (Commonwealth Law of February 14, 1911, amended by the law of July 3, 1913.)

In addition, the Federal States and Communes levied direct taxes of various kinds, such as taxes on industrial and commercial profits, ground taxes, rent taxes, taxes on itinerant vendors and taxes on drapers' shops, etc.

Legislation now in force: The Commonwealth has waived its share in the tax on the increment to real estate. In addition by the law of March 30, 1920 (Landessteuergesetz) numerous sources of income, especially the Income Tax and the tax on the acquisition of real property, were transferred to the Commonwealth. The result of this transfer was a considerable development of the taxes remaining to the States and Communes, in particular the taxes on ground buildings, industrial and commercial profits and increment to real estate.

7. Turnover tax:

Introduced as stamp tax on commercial turnover by the law of June 26, 1916, and as turnover tax by the law of July 26, 1918. *Legislation now in force*: Turnover tax of December 24, 1919, including:—

- (a) The general turnover tax of 1·5 per cent. on deliveries and services rendered.
- (b) The luxury tax of 15 per cent.
- (c) A special tax of 10 per cent. on certain kinds of services rendered.

A bill for the amendment of the turnover tax provides for:—

- (a) An increase in the rate of the general turnover tax $2\frac{1}{2}$ per cent.

- (b) The abolition of exemption of exports; export agents are excepted.
- (c) The abolition of exemption of the first turnover after importation.
- (d) The extension of the luxury tax; the rate of 15 per cent. remains unaltered.
- (e) Special taxes on first class hotels, etc.
- (f) The system of quarterly prepayment.

8. *Tax on Transfer of Real Property.*

In 1914, the transfer of real property was subject to a levy of $\frac{3}{4}$ per cent. of the price (No. 11 of the Commonwealth Stamp Law); there were also taxes and percentages levied by the Federal States and Communes.

Legislation now in force: The Law of September 12, 1919, instituting a tax on the transfer of real property payable at the time of transfer; also compensation tax on real estate owned by legal persons and trusts.

In the case of transfer of ownership, the rate of taxation is 4 per cent. of the value of the land and, in addition, up to 2 per cent. supplement on behalf of the States and Communes, and 2 per cent. in the case of compensation tax (without supplements).

9. *Tax on Movement of Capital.*

Legislation now in force: Commonwealth Stamp Law of 1913, amended 1918, 1921.

The Bill concerning the tax on the movement of capital provides for the extension and increase of the taxes contained under Nos. 1-4 and 9. It includes five kinds of taxes.

(a) *Tax on Companies.*

Applying to the foundation of joint stock companies, limited liability companies, mining companies and other companies run for profit (*Erwerbsgesellschaften*), together with any increase in the capital of such companies.

The tax amounts to $7\frac{1}{2}$ per cent. of the paid up capital or the value contributed in kind in the case of joint stock companies, limited liability companies, mining companies, and other regularly constituted companies having a legal personality (*Kapitalgesellschaften*), and to $\frac{1}{2}$ per cent. of the corresponding values in the case of other companies run for profit, especially public trading companies and co-operative societies.

(b) *Tax on transferable securities*

Applying to the issue of German bonds and the first turnover from foreign bonds and inland shares.

Rate of taxation: 0.50 to 7 per cent.

(c) *Stock Exchange Turnover Tax.*

A tax is levied on the turnover on securities and foreign bills, more especially if negotiated on the stock exchange.

The tax amounts to 1 per cent. of the negotiable value of the shares, and for other transferable securities and foreign bills from 1/10 per thousand to 1 per cent.

(d) *Tax on Boards of Directors.*

A tax is levied on the directors' fees.

The tax amounts to 20 per cent.

(e) *Tax on industrial acquisitions.*

This tax is levied on the alienation of industrial undertakings.

The tax amounts to 4 per cent.

10. *Tax on Motor Vehicles* (to replace No. 8 in the Commonwealth Stamp Law).

In the Bill the tax is graded according to the description of the vehicle and the h.p. and weight; a substantial increase of the present rates is proposed.

11. *Tax on Insurance* (to replace No. 12 of the Commonwealth Stamp Law).

In the Bill a substantial increase of some of the rates is proposed, and branches of insurance hitherto exempt have been included.

12.—(a) *Tax on Betting.*

The Bill provides for the licensing of bookmakers. *Legislation now in force*: A tax of 16½ per cent. on all bets made through the "pari mutuel."

The Bill proposes that bookmakers be licensed, and that a tax of 10 per cent. be levied on all bets made through a bookmaker.

(b) *Tax on lotteries* (to replace No. 5 of the Commonwealth Stamp Law).

The rate of taxation remains, for German lotteries 20 per cent., for foreign lotteries 25 per cent., of the total price of the lot.

13. *Tax on stamps on Bills of Exchange.*

Legislation now in force: Laws of July 17, 1919, and July 26, 1918.

The tax amounts to 0.60 marks on every 1,000 marks:

No amendment proposed.

14. *Stamp on bills of lading* (No. 9 of the Commonwealth Stamp Law).

In 1914 the rates varied from 10 pfennig to 10 marks.

Legislation now in force: Law of July 26, 1918, raising the rate of taxation from 15 pfennig to 20 marks.

No amendment proposed.

15. *Taxes on Transport of Passengers and Goods.*

(a) *Passenger traffic.*

In 1914 a Stamp duty was levied on railway tickets, amounting to from 5 pfennig to 8 marks (No. 7 of Commonwealth Stamp Law).

Legislation now in force : Law of April 8, 1917, instituting a tax of 10 to 16 per cent. on the price of tickets.

(b) Goods traffic.

In 1914 a Stamp duty was levied on bills of lading (*see* No. 14).

Legislation now in force : Law of April 8, 1917, instituting in addition to the stamp on bills of lading a tax of 7 per cent. on the cost of carriage.

16. *Tax on Increment to Real Property* : *See* Note No. 6 (a).

17-21. *See* Note No. 4.

22. *Tax on capital increment obtained after the war.* (*See* footnote on page 71.)

II.—CUSTOMS DUTIES AND TAXES ON CONSUMPTION.

23. Customs.

The Customs tariff law of December 25, 1902, giving the customs tariff, is still in force to-day without amendments. In addition, the law on the payment of customs duties in gold, of July 21, 1919, introduces the so-called Customs Surtax or gold duties. This Surtax amounts to-day to 3,900 per cent.

A Bill is now before the Reichstag which provides mainly for an increase in the fiscal duties and the duties on imported luxuries.

24. Tax on Coal.

Legislation now in force : Law of April 8, 1917, amended by the Law of June 27, 1921, instituting a tax of 20 per cent. on the pit-head price of coal.

A Bill is before the Reichstag for an increase of this tax to 40 per cent.

25. Tax on tobacco and cigarettes—1914.

1. Tax on Tobacco.

Law of July 15, 1919, instituting the following taxes :

On tobacco leaves, with the exception of those for cigarettes, 57 marks per metric quintal.

On tobacco leaves for cigarettes, 45 marks per metric quintal.

In the case of small plantations, however, the tax based on weight was replaced by a tax on the area under cultivation. In this case the rate of the tax was 0.057 marks per square metre planted with tobacco.

In the case of tobacco substitutes, 85 marks per metric quintal.

2. Tax on cigarettes.

Law of June 3, 1906, amended by law of July 15, 1909, instituting the following rates :

For cigarettes : 2.15 marks per 1,000 according to the retail price.

For cigarette tobacco : 0.80-7 marks per kilo.

For cigarette papers : 1 mark per 1,000 tubes or sheets.

The Law of June 12, 1916, introduced the following amendments :

1. *In the tax on Tobacco.*

The tax on tobacco leaves was increased to 70 marks per metric quintal, with the exception of those used for the manufacture of cigarettes.

The tax levied on the area under cultivation was increased to 0.07 marks per square metre.

The tax on tobacco substitutes was increased to 120 marks per metric quintal.

2. *In the tax on cigarettes.*

War surtaxes were instituted in addition to the tax on cigarettes and these amounted to :

3-25 marks per thousand cigarettes ;

3-12 marks per kilogram of cigarette tobacco ;

6 marks per thousand tubes or sheets of cigarette papers.

Legislation now in force :

Law of September 12, 1919, abolishing the provisions regarding the tax on tobacco and the tax on cigarettes and instituting an inland duty on consumption for finished tobacco products based on the retail price, and an inland duty on cigarette papers.

These taxes amount to :

8-1,600 marks per thousand cigars ;

10-300 marks per thousand cigarettes ;

3-60 marks per kilogram of fine cut tobacco.

1-9 marks per kilogram of pipe tobacco ;

15-100 marks per thousand plugs of chewing tobacco ;

1-4 marks per kilogram of snuff ;

10 marks per thousand tubes or sheets of cigarette papers ;

100 marks per metric quintal of tobacco substitutes.

In the case of cigars, pipe tobacco, chewing tobacco and snuff the duty in Germany on consumption is reduced to an amount not exceeding 50 per cent according to the rate of the Customs surtax or gold duties.

A Bill⁽¹⁾ has been submitted which, besides abolishing the abatements for chewing tobacco and snuff, provides for an increase in the rates for fine-cut tobacco, pipe tobacco, chewing tobacco and snuff of superior quality.

26. *Tax on beer :*

In 1914 : Brewers' tax in North Germany and special regulations for Bavaria, Wurtemberg, Baden and Alsace-Lorraine.

Legislation now in force : Law for a tax on beer of July 26, 1918, which prescribes a tax of 10-12.50 marks per hectolitre of ordinary beer ($4\frac{1}{2}$ -13 per cent. strength).

(¹) Law for the increase of certain of the taxes on consumption.

Average tax on 1 hectolitre of beer of 10 per cent. strength :

	Marks.
1913	2.60
1921	11.00

that is, a 422 per cent. rise.

A Bill⁽¹⁾ has been submitted for a 400 per cent. increase in the rates now in force (including the communal taxes, 500 per cent. increase).

27. Tax on wines.

In 1914, Baden, Wurtemberg and Alsace-Lorraine were the only Federal States which levied the tax on wines :

Legislation now in force.—Law for a tax on wines of July 26, 1918, which prescribes a tax of 20 per cent. on the retail price.

No amendments are proposed.

28. Tax on sparkling wines.

In 1914 : Law of May 9, 1902, amended by the law of July 15, 1909, instituting a tax of 0.10 marks per bottle on sparkling fruit wines and 1—3 marks per bottle on sparkling wines made with grape wines.

Legislation now in force.—Law of April 21, 1920, raising the rate of taxation to three marks per bottle for sparkling wines made with fruit wines and to 12 marks per bottle for sparkling wines made with grape wines.

When this law lapses on July 1, 1923, the tax will be increased by a change in the system on which it is levied.

29. Tax on mineral waters.

1914. Exempt from taxation.

Legislation now in force.—Law of July 26, 1918.

	Marks per litre.
Rate of Tax for natural and artificial waters ...	0.05
„ Lemonades and other artificially prepared beverages containing not more than 10 g. of alcohol to the litre	0.10
„ Containing more than 10 g. of alcohol to the litre	0.20
„ Concentrated artificial lemonade ...	1.00
„ Essential substance for producing 1 litre of concentrated artificial lemonade	20.00

A Bill⁽¹⁾ for doubling the rates now in force has been submitted to the Reichstag.

⁽¹⁾ Law for the increase of certain of the taxes on consumption.

30. *Tax on spirits.*

In 1914 : A tax of 1.25 mark per litre of alcohol.

Legislation now in force : Law of July 26, 1918, substituting the spirits monopoly for the tax on spirits.

Net revenue from the monopoly : 800 marks per hectolitre of spirits for drinking purposes, perfumery, medicines, etc. Special tax of 300 marks per hectolitre on spirits for drinking purposes not manufactured by the monopoly administration.

A Bill relating to the spirits monopoly is now before the Reichstag. It provides for an increase in the revenue of 800 marks per hectolitre to at least 4,000 marks plus a surtax of 15 per cent. for spirits not destined for monopoly products. Including administrative costs, the revenue would amount to at least 7,000 marks per hectolitre. The present law would at the same time be completely revised and simplified.

For foreign spirits, besides the duty, there is a compensation payment to the monopoly, amounting to 3,800 marks per hectolitre, which would likewise be increased, in proportion to the increase of the revenue from the monopoly.

31. *Tax on acetic acid.*

In 1914 : The rate of taxation was 0.30 mark per kg. of anhydrous acetic acid.

Legislation now in force.—Law of July 26, 1918, increasing the rate of taxation to 1.60 marks per kg.

A Bill has been submitted to the Reichstag prescribing an increase in the rate to 9 marks per kg.

32. *Tax on sugar.*

Legislation now in force.—Law of May 27, 1896, amended by the law of January 6, 1903, instituting a tax of 14 marks per 100 kg.

A Bill for the increase of this rate to 100 marks has been submitted to the Reichstag (*see* footnote on page 71).

33. *Tax on salt.*

Legislation now in force.—Law of October 12, 1867, fixing a rate of 12 marks per 100 kilograms.

No revision is contemplated.

34. *Tax on matches.*

In 1914, the rate of taxation for matches was 1—1½ pfennig per box, for wax vestas 5 pfennigs per box.

Legislation now in force.—The law of September 10, 1919, doubles the former rates and levies a tax on briquets and flints.

A Bill (¹) for doubling the rates now in force for matches and wax vestas has been submitted to the Reichstag.

(¹) Law for the increase of certain taxes on consumption.

35. *Tax on lighting apparatus.*

Legislation now in force.—Law of July 15, 1909, instituting the following rates :

For electric incandescent lamps and burners :

(a) Carbon filament lamps 0·05—0·50 marks.

(b) Metal filament lamps 0·10—1 mark.

(With supplement for more than 200 watts).

For incandescent mantles 0·10 mark.

For carbons for arc lamps 0·60—1 mark per kg.

For burners for mercury vapour lamps and other.

Similar lamps up to 100 watts—1 mark each.

A Bill⁽¹⁾ has been submitted to the Reichstag increasing the rate of the tax 400 per cent.

36. *Tax on playing cards.*

In 1914, the rate of taxation varied from 0·30 to 0·50 marks per pack according to the number of cards.

Legislation now in force.—Law of September 10, 1919, raising the tax to 1, 2 and 3 marks per pack respectively.

No amendment is proposed.

37. *Statistical charges.*

In the draft budget for 1922, a revenue of 12 million marks from statistical charges has been entered in view of the provisions of a new bill; this has, however, been postponed and will probably not come into force in 1922 (*see* footnote on page 71).

38. *Monopoly on sweetening materials.*

A Bill for the introduction of a monopoly on sweetening materials has been submitted.

39. *Levy on exports.*

The export tax on coal potash and salt will be collected by the departments which grant the export licences, and will be indicated in the draft budget of the Ministry for Economic Affairs.

SUB-ANNEX 2.

COMPARISON OF THE TAXATION OF INCOME IN
GERMANY, FRANCE, ENGLAND, AND THE UNITED
STATES OF AMERICA.

A.—GERMANY.

(Income Tax Law of the Commonwealth, dated March 29, 1920, amended by the laws of March 31, 1920, July 21, 1920, March 24, 1921, July 11, 1921, and December 20, 1921.)

(¹) Law for the increase of certain taxes on consumption.

I. All physical persons are liable to income tax. The incomes of legal persons are subject to a special corporation tax. Incomes arising out of capital are taxed by means of the tax on capital.

II. The taxable income consists of the total revenue of the taxpayer after deduction of the amounts mentioned in paragraph 13 of the Income Tax Law, in particular, business expenses and interest on loans and debts.

III. The rate of taxation is as follows :

	Per cent.
For any part of the taxable income not exceeding 50,000 marks	10
For any part between 50,000 and 60,000 marks	15
" " 60,000 " 80,000 " "	20
" " 80,000 " 100,000 " "	25
" " 100,000 " 200,000 " "	30
" " 200,000 " 300,000 " "	35
" " 300,000 " 500,000 " "	40
" " 500,000 " 1,000,000 " "	45
" " 1,000,000 " 1,500,000 " "	50
" " 1,500,000 " 2,000,000 " "	55
For any part above 2,000,000	60

IV. *Rebates.*—The income tax is modified for the taxpayer and his wife by 240 marks each if the taxable income does not exceed 50,000 marks and by 360 marks for each minor child provided that the taxable income does not exceed 200,000 marks. The rebates for wife and children apply only in so far as they are not liable to pay income tax independently.

B.—FRANCE.

(Laws of March 29, 1914; July 15, 1914; July 31, 1917; and June 25, 1920.)

The French income tax is divided into a series of cedulary taxes on income levied on the various sources of income, which are to a certain extent of the nature of a real tax, and the general income tax, which is levied on the total income of the taxpayer.

(a) *Cedulary Income Tax:*

The following are classed as cedulary income taxes :

1. The land tax on developed or undeveloped property is levied on incomes derived from such property;
2. The tax on incomes from personal securities and the tax on incomes derived from credits, deposits and security, affects revenue from invested capital;
3. The tax on industrial and commercial profits;
4. The tax on profits from agricultural undertakings;
5. The tax on official and private salaries, bonuses and fees, wages, pensions and annuities;

6. The tax on profits accruing from liberal professions.

I. All physical and legal persons are subject to taxation. There is no special taxation of the incomes of legal persons.

II. In assessing the taxable incomes from property and landed property, the renting and leasing value is taken as a basis; $\frac{1}{4}$ in the case of the rent value and $\frac{1}{3}$ in the case of the lease value are deducted as business expenses. With regard to incomes from capital and as regards wages, salaries, etc., the sum taxed consists of the interest, dividends, salaries, wages, etc., actually obtained, and as regards revenue arising out of trade and industry and from the liberal professions, the net profits are regarded as the taxable income. As regards profits from agricultural undertakings, such incomes are assessed on the value of the lease multiplied by an appropriate coefficient. The income of a farmer working on his own account is assessed as on the basis of $\frac{1}{3}$ on the value of the land and $\frac{1}{3}$ on the profits from the agricultural undertaking.

There are no rebates in the case of incomes from house property, landed property and capital.

With regard to commercial and industrial profits, that part of the taxable income up to 1,500 francs is taxed as $\frac{1}{4}$, that part between 1,500 francs and 5,000 francs is taxed as a $\frac{1}{2}$, and that part exceeding 5,000 francs is taxed in full.

With regard to profits from agricultural undertakings, that part of the taxable income up to 1,500 francs is exempt from taxation, that portion between 1,500 and 4,000 francs is taxed to a half of its value, and that part over 4,000 francs is subject to taxation in full.

With regard to salaries, wages, etc., as well as incomes from liberal professions, the following amounts are exempt from taxation :—

	Frs.
If the taxpayer has his residence in a town of not more than 50,000 inhabitants	4,000
If he has his residence in a town of more than 50,000 inhabitants	5,000
If he has his residence in Paris	6,000

The following amounts are exempt in the case of pensions and annuities. In the case of pensions acquired through service or in the case of annuities consisting of successive periodical payments or voluntarily granted as old age pensions by employers

In the case of annuities from capital or in the case of annuities from donations or legacies

That part of the income between the portion exempt from taxation and 8,000 francs is taxed to a half of its value.

III.—RATES OF TAXATION.

	Per cent.
For revenues from house and landed property ...	10
Income derived from capital in general ...	10
Industry and trade	8
Agricultural undertakings	6
Salaries, wages, pensions and annuities ...	6
Liberal professions	6

IV.—TAXATION REBATES.

Every taxpayer whose total income does not exceed 10,000 francs, taking into account the rebates provided under the general income tax regulations on account of the situation or expenses of his family, has a right to rebate of the cedulary income taxes with the exception of taxes on income from capital to the extent of 7·5 per cent. of the amount of the tax for every person dependent on him up to two persons, and to rebate of 15 per cent. of the amount of the tax for every additional person maintained by him. Should his taxable income exceed 10,000 francs, taking into account the rebates provided under the general income tax regulations on account of the situation and expenses of his family, the rebate amounts to 5 per cent. for each of the first three persons and 10 per cent. of the amount of the tax for each additional person. The total amount of the rebate may not exceed 300 francs for each person.

(b) *General Income Tax:*

1. All physical persons are subject to income tax.

2. The total income of the taxpayer is regarded as taxable income after deduction of business expenses and interest arising from loans and debts. The first 6,000 francs of the taxable income are exempt from taxation

	Francs.
In the case of married taxpayers the part exempt from taxation is increased by	3,000
In addition, when the tax is calculated, every taxpayer has the right to a rebate on his annual income for each child under 21 of	2,000
For all other dependents up to the fifth to a rebate on his annual income of	1,500
For all dependents beyond five to a rebate on his annual income of	2,000

3. *Rates of taxation.*—The percentage of taxation amounts to 50 per cent. The scale of taxation has been obtained through the application of the system of taxation "par tranche" by means of the gradual reduction of the basis of assessment. In this way $\frac{1}{3}$ th of the taxable portion is subjected to taxation up to 20,000 francs, $\frac{2}{3}$ ths and so on of that portion between 20 and 30,000 francs. The

actual amount of taxation of the various portions of the income by application of this system is shown in the following table. The percentage for each part of the taxable income is as follows :—

						Per cent.
Between	6,000 and	20,000 francs	...	...	...	2
"	20,000	" 30,000	"	...	...	4
"	30,000	" 40,000	"	...	...	6
"	40,000	" 50,000	"	...	...	8
"	50,000	" 60,000	"	...	...	10
"	60,000	" 70,000	"	...	...	12
"	70,000	" 80,000	"	...	...	14
"	80,000	" 90,000	"	...	...	16
"	90,000	" 100,000	"	...	...	18
"	100,000	" 125,000	"	...	...	20
"	125,000	" 150,000	"	...	...	22
"	150,000	" 175,000	"	...	...	24
"	175,000	" 200,000	"	...	...	26
"	200,000	" 225,000	"	...	...	28
"	225,000	" 250,000	"	...	...	30
"	250,000	" 275,000	"	...	...	32
"	275,000	" 300,000	"	...	...	34
"	300,000	" 325,000	"	...	...	36
"	325,000	" 350,000	"	...	...	38
"	350,000	" 375,000	"	...	...	40
"	375,000	" 400,000	"	...	...	42
"	400,000	" 450,000	"	...	...	44
"	450,000	" 500,000	"	...	...	46
"	500,000	" 550,000	"	...	...	48
Above 550,000 francs						50

4. *Rebates*.—Every taxpayer whose total taxable income does not exceed 10,000 francs after deduction of those parts of his income which are exempt from taxation on account of his wife and all persons maintained by him is entitled to a rebate of 7.5 per cent. on the general income tax for each of the first two persons maintained by him, and of 15 per cent. for every additional person. If the taxable income exceeds 10,000 francs, taking into account the reduction on account of persons maintained by the taxpayer, the tax is abated by 5 per cent. for each of the first three persons and by 10 per cent. for each additional person. The total rebate may not exceed 2,000 francs for each person.

1. Additional charges : For unmarried or divorced taxpayers over 30 years of age, 25 per cent. of the tax.

2. For taxpayers over 30 years of age who have been married for 2 years and have no children, 10 per cent. of the tax.

C.—ENGLAND.

(Legislation codified in the Consolidated Income Tax Act, 1918 : amended by the Finance Act of 1920.)

1. English income tax is divided into "income tax," to which physical and legal persons are subject, and "super tax" to which only physical persons are subject. The incomes of trading concerns are subjected to a special corporation tax amounting to 5 per cent. of that portion of the net profits which exceeds £500.

(a) *Income Tax* :

II *a*. The taxable income is the "assessable income," i.e., the income after deduction of certain amounts, including business expenses and interest on loans and debts. A former differentiation between earned income and unearned income on various rates of taxation has been removed since 1920. Instead, $\frac{1}{10}$ th of the earned income is deducted in calculating the assessable income. Nevertheless this deduction may not exceed £200.

The income tax is assessed according to 5 schedules *a* to *e* :

Schedule *a* contains taxes levied on income arising out of landed and house property ;

Schedule *b* contains taxes on incomes arising out of profits from agricultural holdings ;

Schedule *c* contains taxes on State securities of Great Britain, India, the British Dominions, and Foreign State securities ;

Schedule *d* contains taxes on the income of persons engaged in industry and their employees, on income from liberal professions and on income from shares ;

Schedule *e* contains taxes levied on the salaries and pensions of officials and employees of the State and other public legal corporations.

The taxation in Schedules *a*, *c* and *e* is levied at the source, i.e., by payment through the debtor. The revenues under *d* are assessed on the basis of a declaration made by the taxpayer. With regard to revenues under *b*, it is assumed that the agricultural profits stand in definite ratio to the rental value; the taxpayer can, however, demand to be assessed as a person engaged in industry according to Schedule *d*.

In order to arrive at the amount of the "taxable income" the following amounts should be deducted from the assessable income :

(a) For the taxpayer himself		£135
(b) For his wife		90

If the assessable income also contains earned income of the wife, then the rebate on the income of the wife amounts to $\frac{9}{10}$ ths, but may not exceed £45.

(c) For the first child		£36
For every additional child		£27

For children with more than £40 income in their own rights, rebate may not be made.

- (d) For dependent relatives who are maintained by the taxpayer, provided that their own income does not exceed £50 ... £25

In cases in which the income is levied at the source, rebates are granted only on special demand for re-imbursement.

III. (a) *The rate of tax* amounts to 6s. in the £.

The first £225 are taxed at only half this rate in the case of all physical persons.

(b) *Super-tax.*

- II (b) The super-tax is levied on the whole assessable income when it exceeds £2,000.

III (b) *The rate of taxation.*

For that part of income between £2,000 and £2,500	...	1/6 in £1,	7.5 %
" " " 2,500 " 3,000	...	2/-	" 10. %
" " " 3,000 " 4,000	...	2/6	" 12.5 %
" " " 4,000 " 5,000	...	3/-	" 15. %
" " " 5,000 " 6,000	...	3/6	" 17.5 %
" " " 6,000 " 7,000	...	4/-	" 20. %
" " " 7,000 " 8,000	...	4/6	" 22.5 %
" " " 8,000 " 20,000	...	5/-	" 25. %
" " " 20,000 " 30,000	...	5/6	" 27.5 %
" " exceeding 30,000	...	6/-	" 30. %

D.—AMERICA.

(Latest regulations of the Revenue Act of November 23, 1921.)

I. Income tax in the United States is divided into the normal tax and the sur-tax. Both taxes are levied only on the incomes of physical persons. The incomes of companies run for profit are subject to a special tax on corporations of 12½ per cent. on net profits.

(a) *Normal Tax.*

- II (a) Net income is liable to taxation after the following rebates :

- (a) For the tax-payer himself ... \$1,000
 (b) For his wife ... 1,000
 (c) For every child and every immediately dependent person ... 400

No distinction is made with regard to earned and unearned incomes. Should the combined income of married persons not exceed \$5,000, then the amount of rebate is raised from \$2,000 to \$2,500.

III (a) *Rates of taxation.*—The percentage of taxes amounts to 8 per cent. Only half this percentage is levied on the first 4,000 dollars.

(b) *Sur-tax.*

II (a) The net income is subject to sur-tax in so far as it exceeds 6,000 dollars.

III (b) The rate of taxation is as follows :

			\$	\$	Per cent.
For that part of income between	6,000	and	10,000	...	1
"	"	"	10,000	" 12,000 ...	2
"	"	"	12,000	" 14,000 ...	3
"	"	"	14,000	" 16,000 ...	4
"	"	"	16,000	" 18,000 ...	5
"	"	"	18,000	" 20,000 ...	6
"	"	"	20,000	" 22,000 ...	8
"	"	"	22,000	" 24,000 ...	9
"	"	"	24,000	" 26,000 ...	10
"	"	"	26,000	" 28,000 ...	11
"	"	"	28,000	" 30,000 ...	12
"	"	"	30,000	" 32,000 ...	13
"	"	"	32,000	" 36,000 ...	15
"	"	"	36,000	" 38,000 ...	16
"	"	"	38,000	" 40,000 ...	17
"	"	"	40,000	" 42,000 ...	18
"	"	"	42,000	" 44,000 ...	19
"	"	"	44,000	" 46,000 ...	20
"	"	"	46,000	" 48,000 ...	21
"	"	"	48,000	" 50,000 ...	22
"	"	"	50,000	" 52,000 ...	23
"	"	"	52,000	" 54,000 ...	24
"	"	"	54,000	" 56,000 ...	25
"	"	"	56,000	" 58,000 ...	26
"	"	"	58,000	" 60,000 ...	27
"	"	"	60,000	" 62,000 ...	28
"	"	"	62,000	" 64,000 ...	29
"	"	"	64,000	" 66,000 ...	30
"	"	"	66,000	" 68,000 ...	31
"	"	"	68,000	" 70,000 ...	32
"	"	"	70,000	" 72,000 ...	33
"	"	"	72,000	" 74,000 ...	34
"	"	"	74,000	" 76,000 ...	35
"	"	"	76,000	" 78,000 ...	36
"	"	"	78,000	" 80,000 ...	37
"	"	"	80,000	" 82,000 ...	38
"	"	"	82,000	" 84,000 ...	39
"	"	"	84,000	" 86,000 ...	40
"	"	"	86,000	" 88,000 ...	41
"	"	"	88,000	" 90,000 ...	42
"	"	"	90,000	" 92,000 ...	43
"	"	"	92,000	" 94,000 ...	44

		\$	\$	Per cent.
For that part of income between	94,000	and	96,000...	... 45
"	"	96,000	" 98,000 ...	... 46
"	"	98,000	" 100,000 ...	... 47
"	"	100,000	" 150,000 ...	... 48
"	"	150,000	" 200,000 ...	... 49
"	"	exceeding 200,000		... 50

COMPARATIVE TABLE OF INCOME-TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

WAGES AND SALARIES.

Unmarried taxpayer over 30 years of age.

INCOME.			TAXES.					
			France.*		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In shillings.	Per cent.	In marks.	Per cent.
10,000	2,000	900	—	—	—	—	220	2·22
20,000	4,000	1,800	—	—	—	—	1,220	6·10
30,000	6,000	2,700	—	—	—	—	2,220	7·40
50,000	10,000	4,500	275	2·75	202·5	4·50	4,220	8·44
100,000	20,000	9,000	1,110	5·55	945	10·50	15,500	15·50
250,000	50,000	22,500	4,922	9·84	4,590	20·40	63,000	25·20
500,000	100,000	45,000	15,675	15·68	11,190	24·87	160,500	32·10
1,000,000	200,000	90,000	47,916	23·96	30,065	33·41	385,500	38·55
5,000,000	1,000,000	450,000	529,942	52·99	225,315	50·07	2,710,500	54·21
10,000,000	2,000,000	900,000	1,164,942	58·25	491,565	54·62	5,710,500	57·11

* It is assumed that the Taxpayer lives in Paris.

**COMPARATIVE TABLE OF INCOME-TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

WAGES AND SALARIES.

**Married taxpayers with 2 children under 21 years of age who are
dependent on him.**

INCOME.			TAXES.					
			France.*		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In shillings.	Per cent.	In marks.	Per cent.
10,000	2,000	900	—	—	—	—	—	—
20,000	4,000	1,800	—	—	—	—	260	1·30
30,000	6,000	2,700	—	—	—	—	1,260	4·20
50,000	10,000	4,500	153	1·53	—	—	3,260	6·52
100,000	20,000	9,000	809	4·05	351	3·90	14,780	14·78
250,000	50,000	22,500	3,901	7·80	3,672	16·32	63,000	25·20
500,000	100,000	45,000	12,255	12·26	10,272	22·83	160,500	32·10
1,000,000	200,000	90,000	37,157	18·58	29,147	32·39	385,500	38·55
5,000,000	1,000,000	450,000	421,980	42·19	224,397	49·87	2,710,500	54·21
10,000,000	2,000,000	900,000	951,930	47·60	490,647	54·52	5,710,500	57·11

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

WAGES AND SALARIES.

**Married taxpayers with 4 children under 21 years of age who are
dependent on him.**

INCOME.			TAXES.					
			France.*		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In Shillings.	Per cent.	In Marks.	Per cent.
10,000	2,000	900	—	—	—	—	—	—
20,000	4,000	1,800	—	—	—	—	—	—
30,000	6,000	2,700	—	—	—	—	540	1·80
50,000	10,000	4,500	99	0·99	—	—	2,540	5·08
100,000	20,000	9,000	601	3·00	189	2·10	14,060	14·06
250,000	50,000	22,500	3,214	6·43	3,348	14·88	63,000	25·20
500,000	100,000	45,000	10,433	10·43	9,948	22·11	160,500	32·10
1,000,000	200,000	90,000	32,251	16·13	28,823	32·03	385,500	38·55
5,000,000	1,000,000	450,000	417,550	41·76	224,073	49·79	2,710,500	54·21
10,000,000	2,000,000	900,000	947,550	47·38	490,323	54·48	5,710,500	57·11

* It is assumed that the Taxpayer lives in Paris.

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

REVENUE FROM TRADE AND INDUSTRY.

Unmarried taxpayer over 30 years of age.

INCOME.			TAXES.					
			France.		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In shillings.	Per cent.	In marks.	Per cent.
10,000	2,000	900	50	2.50	—	—	760	7.60
20,000	4,000	1,800	130	3.25	—	—	1,760	8.80
30,000	6,000	2,700	250	4.17	—	—	2,760	9.20
50,000	10,000	4,500	655	6.55	202.5	4.50	4,760	9.52
100,000	20,000	9,000	1,685	8.43	945	10.50	15,500	15.50
250,000	50,000	22,500	5,992	11.98	4,590	20.40	63,000	25.20
500,000	100,000	45,000	17,371	17.37	11,190	24.87	160,500	32.10
1,000,000	200,000	90,000	50,745	25.37	30,065	33.41	385,500	38.55
5,000,000	1,000,000	450,000	525,013	52.50	225,315	50.07	2,710,500	54.21
10,000,000	2,000,000	900,000	1,180,015	59.00	491,565	54.62	5,750,500	57.11

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

REVENUE FROM TRADE AND INDUSTRY.

Married taxpayer with 2 children under 21 years of age who are dependent on him.

INCOME.			TAXES.					
			France.		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In shillings.	Per cent.	In marks.	Per cent.
10,000	2,000	900	42	2.10	—	—	—	—
20,000	4,000	1,800	110	2.75	—	—	800	4.00
30,000	6,000	2,700	192	3.20	—	—	1,800	6.00
50,000	10,000	4,500	419	4.19	—	—	3,800	7.60
100,000	20,000	9,000	1,225	6.13	351	3.90	14,780	14.78
250,000	50,000	22,500	4,005	8.01	3,672	16.32	63,000	25.20
500,000	100,000	45,000	14,987	14.99	10,272	22.83	160,500	32.10
1,000,000	200,000	90,000	40,305	20.15	29,147	32.29	385,500	38.55
5,000,000	1,000,000	450,000	431,985	43.20	224,397	49.87	2,710,500	54.21
10,000,000	2,000,000	900,000	971,985	48.60	490,647	54.52	5,710,500	57.11

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

REVENUE FROM TRADE AND INDUSTRY.

**Married taxpayers with 4 children under 21 years of age who are
dependent on him.**

INCOME.			TAXES.					
			France.		England.		Germany.	
In marks.	In francs.	In shillings.	In francs.	Per cent.	In shillings.	Per cent.	In marks.	Per cent.
10,000	2,000	900	27	1.35	—	—	—	—
20,000	4,000	1,800	71	1.77	—	—	80	0.40
30,000	6,000	2,700	137	2.28	—	—	1,080	3.60
50,000	10,000	4,500	269	2.69	—	—	3,080	6.16
100,000	20,000	9,000	989	4.95	189	2.10	14,060	14.06
250,000	50,000	22,500	3,994	8.00	3,348	14.88	63,000	25.20
500,000	100,000	45,000	12,319	12.32	9,948	22.11	160,500	32.10
1,000,000	200,000	90,000	39,773	19.89	28,823	32.03	385,500	38.55
5,000,000	1,000,000	450,000	427,600	42.76	224,073	49.79	2,710,500	54.21
10,000,000	2,000,000	900,000	967,605	48.38	490,323	54.48	5,710,500	57.11

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

INCOME DERIVED FROM CAPITAL.

Unmarried taxpayer over 30 years of age.

INCOME.			TAXES.					
			France.		England.		Germany.	
Marks.	France.	Shillings	France.	Per cent.	Shillings.	Per cent.	Marks.	Per cent.
10,000	2,000	900	200	10.00	—	—	1,660	16.60
20,000	4,000	1,800	400	10.00	—	—	3,560	17.80
30,000	6,000	2,700	600	10.00	—	—	5,460	18.20
50,000	10,000	4,500	1,075	10.75	270	6.00	9,260	18.52
100,000	20,000	9,000	2,300	11.50	1,215	13.50	23,000	23.00
250,000	50,000	22,500	7,100	14.20	5,265	23.40	79,250	31.70
500,000	100,000	45,000	19,100	19.10	12,390	27.53	190,500	38.10
1,000,000	200,000	90,000	53,600	26.80	31,265	34.74	440,500	44.05
5,000,000	1,000,000	450,000	532,600	53.26	226,515	50.34	2,910,500	58.21
10,000,000	2,000,000	900,000	1,195,100	59.75	492,765	54.75	6,110,500	61.11

COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

INCOME DERIVED FROM CAPITAL.

Married taxpayer with 2 children under 21 years of age
dependent on him.

INCOME.			TAXES.					
			France.		England.		Germany.	
Marks.	Francs.	Shillings	Francs.	Per cent.	Shillings.	Per cent.	Marks.	Per cent.
10,000	2,000	900	200	10-00	—	—	1,000	10-00
20,000	4,000	1,800	400	10-00	—	—	2,600	13-00
30,000	6,000	2,700	600	10-00	—	—	4,500	15-00
50,000	10,000	4,500	1,000	10-00	—	—	8,300	16-60
100,000	20,000	9,000	2,090	10-45	486	5-40	22,280	22-28
250,000	50,000	22,500	6,044	12-09	4,347	19-32	79,250	31-70
500,000	100,000	45,000	15,544	15-54	11,472	25-49	190,500	38-10
1,000,000	200,000	90,000	42,590	21-30	30,347	33-72	440,500	44-05
5,000,000	1,000,000	450,000	438,580	43-86	225,597	50-13	2,910,500	58-21
10,000,000	2,000,000	900,000	988,580	49-43	491,847	54-65	6,110,500	61-11

COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.

(1 franc = 5 paper marks, 1 shilling = 11 paper marks.)

INCOME DERIVED FROM CAPITAL.

Married taxpayer with 4 children under 21 years of age
dependent on him.

INCOME.			TAXES.					
			France.		England.		Germany.	
Marks.	Francs.	Shillings	Francs.	Per cent.	Shillings.	Per cent.	Marks.	Per cent.
10,000	2,000	900	200	10-00	—	—	1,000	10-00
20,000	4,000	1,800	400	10-00	—	—	2,000	10-00
30,000	6,000	2,700	600	10-00	—	—	3,780	12-60
50,000	10,000	4,500	1,000	10-00	—	—	7,580	15-16
100,000	20,000	9,000	2,011	10-05	324	3-50	21,560	21-56
250,000	50,000	22,500	5,690	11-38	4,023	17-88	79,250	31-70
500,000	100,000	45,000	14,155	14-16	11,148	24-77	190,500	38-10
1,000,000	200,000	90,000	38,105	19-05	30,023	33-36	440,500	44-05
5,000,000	1,000,000	450,000	432,580	43-26	225,273	50-06	2,910,500	58-21
10,000,000	2,000,000	900,000	982,580	49-13	491,523	54-61	6,110,500	61-11

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks.)

INCOME DERIVED FROM AGRICULTURE.

Unmarried taxpayer over 30 years of age.

INCOME.		TAXES.			
		France.		Germany.	
Marks.	Francs.	Francs.	Percentage.	Marks.	Percentage.
10,000	2,000	88	4·40	760	7·60
20,000	4,000	198	4·95	1,760	8·80
30,000	6,000	320	5·33	2,760	9·20
50,000	10,000	695	6·95	4,760	9·52
100,000	20,000	1,705	8·53	15,500	15·50
250,000	50,000	5,950	11·90	63,000	25·20
500,000	100,000	17,248	17·25	160,500	32·10
1,000,000	200,000	50,487	25·24	385,500	38·55
5,000,000	1,000,000	524,203	52·42	2,710,500	54·21
10,000,000	2,000,000	1,178,370	58·91	5,710,500	57·11

It is assumed that the owner of the land cultivates it himself. The comparison is therefore limited to France and Germany, as such assumption is practically inapplicable to England.

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks.)

INCOME DERIVED FROM AGRICULTURE.

**Married taxpayer with 2 children under 21 years of age
dependent upon him.**

INCOME.		TAXES.			
		France.		Germany.	
Marks.	Francs.	Francs.	Percentage.	Marks.	Percentage.
10,000	2,000	88	4·40	—	—
20,000	4,000	195	4·88	800	4·00
30,000	6,000	312	5·20	1,800	6·00
50,000	10,000	587	5·87	3,800	7·60
100,000	20,000	1,438	7·19	14,780	14·78
250,000	50,000	4,693	9·38	63,000	25·20
500,000	100,000	13,229	13·23	160,500	32·10
1,000,000	200,000	38,562	19·28	385,500	38·55
5,000,000	1,000,000	427,086	42·71	2,710,500	54·21
10,000,000	2,000,000	965,974	48·30	5,710,500	57·11

It is assumed that the owner of the land cultivates it himself. The comparison is therefore limited to France and Germany as such assumption is practically inapplicable to England.

**COMPARATIVE TABLE OF INCOME TAX IN FRANCE,
ENGLAND AND GERMANY, BEARING IN MIND THE
INTERNAL PURCHASING POWER OF MONEY.**

(1 franc = 5 paper marks.)

INCOME DERIVED FROM AGRICULTURE.

**Married taxpayer with 4 children under 21 years of age
dependent upon him.**

INCOME.		TAXES.			
		France.		Germany.	
Marks.	Francs.	Francs.	Percentage.	Marks.	Percentage.
10,000	2,000	88	4.40	—	—
20,000	4,000	189	4.73	80	0.40
30,000	6,000	296	4.93	1,080	3.60
50,000	10,000	537	5.37	3,080	6.16
100,000	20,000	1,184	5.92	14,060	14.06
250,000	50,000	4,113	8.23	63,000	25.20
500,000	100,000	11,341	11.34	160,500	32.10
1,000,000	200,000	33,340	16.67	385,500	38.55
5,000,000	1,000,000	420,786	42.08	2,710,500	54.21
10,000,000	2,000,000	959,674	47.99	5,710,500	57.11

It is assumed that the owner of the land cultivates it himself. The comparison is therefore limited to France and Germany, as such an assumption is practically inapplicable to England.

SUB-ANNEX 3.

**RECEIPTS AND EXPENDITURE OF THE TAX AND
CUSTOMS AUTHORITIES ACCORDING TO THE 1922
BUDGET.**

A.—ADMINISTRATION OF TAXES.

	Marks.
Receipts	71,193,750,000
Expenditure	2,499,755,215
Expenditure 3.5 per cent. of the receipts.	

A.—ADMINISTRATION OF CUSTOMS.

	Marks.
Receipts	26,334,207,042
Expenditure	1,545,382,250
Expenditure 5.8 per cent. of the receipts.	

C.—TOTAL FOR FINANCE ADMINISTRATION.

	Marks.
Receipts	97,527,957,042
Expenditure	4,045,137,465

Expenditure 4·1 per cent. of the receipts.

Exceptional expenditure is not included in the above figures, but is given in the following table :—

	Marks.	Of Receipts.
A. For the Administration of Taxes...	2,632,621,915	= 3·7 per cent.
B. For the Administration of Customs	1,696,795,550	= 6·4 „
C. Total for Finance Administration	4,329,417,465	= 4·4 „

SUB-ANNEX 4.

MEASURES AGAINST THE MIGRATION OF CAPITAL.

During the war Germany took measures against the evasion of taxes and the migration of capital, and strengthened these measures immediately after the Revolution. Later, legislation in this direction was increased and perfected in order to remove anomalies which had arisen in the practical application of the laws. A distinction should be made between :—

1. Legislation against the evasion of taxes (migration of capital in the subjective sense) and
2. Legislation against the migration of capital (in the objective sense).

The object of legislation against the evasion of taxation is to prevent evasion which might occur owing to action taken by the taxpayer personally, *e.g.*, through transfer of permanent domicile abroad or prolonged residence abroad. Laws against the migration of capital deal with the supervision of the reciprocal transfer of capital between Germany and other countries. These laws are complementary to each other, as the laws against the evasion of taxation afford an opportunity of taking measures of control over the person of the taxpayer should the supervision established over the reciprocal transfer of capital between Germany and other countries by the laws relating to the migration of capital bring to light facts which cause any action of the taxpayer to appear suspicious.

I.—LEGISLATION WITH REGARD TO THE EVASION OF TAXATION.

1. *Law of July 26, 1918.* (Reichsgesetzblatt, p. 951.)

The law lays down that German nationals giving up permanent residence in their native country shall be subject to personal taxes until the end of the third year after the expiry of the year in which the war with all the Great Powers came to an end, and must give

security for the payment of these taxes to the extent of 20 per cent. of their property.

In order that the law may be carried out, the passport authorities have received instructions to give visas for travelling abroad only after the traveller has obtained the consent of the competent Finance Office. When the traveller has complied with the regulations the Finance Office gives him a certificate stating that, from the point of view of taxation, he is free to leave the country.

2. *Law of June 24, 1919, complementary to the law against the evasion of taxation.* (Reichsgesetzblatt, p. 583.)

The law empowers the Finance Offices to increase the security which may be demanded in accordance with the law of July 26, 1918, up to 50 per cent. of the property of the taxpayer. Further, it lays down that this security may not only be demanded from those who permanently give up residence in Germany, but can also be demanded should circumstances arise justifying the assumption that the taxpayer is endeavouring to evade taxation of part of his property.

II.—LEGISLATION AGAINST THE MIGRATION OF CAPITAL.

1. *Law against the migration of capital of December 24, 1920* (Reichsgesetzblatt, 1921, p. 33), *amended by the laws of July 4, 1921* (Reichsgesetzblatt, p. 808) *and December 22, 1921* (Reichsgesetzblatt, 1921, p. 1607).

The law of July 4, 1921, embodies the legal provisions hitherto contained in various laws and decrees affecting the reciprocal transfer of capital between Germany and other countries.

Securities and all instruments of payment, apart from the exceptions enumerated in paragraph 6 of the law, may be sent or taken abroad only through the medium of banks. The banks, moreover, can execute orders to send or to take securities and instruments of payment abroad, to transfer sums abroad or to transfer them in Germany to a foreigner by making a credit entry to his account only if the customer of the banks hands in a statement made out in the prescribed form with regard to the object of the transaction; this declaration must then be transmitted by the bank to the competent taxation authorities. The object of this provision is that the taxation authorities may be in a position to supervise the reciprocal transfer of capital between German taxpayers and foreigners.

In order that the law may be carried out, all transactions carried out by the banks are supervised annually by a special official. By these means and owing to the further provision that banks must hand in each year a list of their customers to the taxation authorities the secrecy of banking transactions has been abolished.

In order to prevent unauthorised persons who might take advantage of the confidential nature of the position of a banking institution from founding new banking businesses, the law further states that up to December 31, 1924, deposit business may be carried on only by those banks which, on September 12, 1919, had conformed to the obligation to make to the fiscal authorities the declarations prescribed by paragraph 76 of the Commonwealth Stamp Law.

2. *Ordinance of October 24, 1919, with regard to measures relating to the migration of capital.* (Reichsgesetzblatt, p. 1820.)

This ordinance places the payment of interest coupons of all German securities under the control of the taxation authorities. It enables them to ascertain the total amount of German securities held by persons subject to taxation in Germany.

III.

Apart from the laws and ordinances mentioned under I and II, the following laws and ordinances should be mentioned, which are indirectly concerned with checking the migration of capital.

1. *Ordinance of November 15, 1918, with regard to the supervision of foreign mail and telegrams.* (Reichsgesetzblatt, p. 1324.)

This ordinance lays down that, for the purpose of taxation, the supervision of foreign mail and telegrams shall be carried out by the officials of the postal control service attached to the Commonwealth Ministry of Finance.

2. *Law of March 1, 1919, with regard to the sealing of manuscripts, printed matter, securities and instruments of payment taken abroad by travellers crossing the frontier.* (Reichsgesetzblatt, p. 265.)

The law lays down that manuscripts, printed matter, securities and instruments of payment can be taken abroad by travellers only after they have been examined and sealed by a competent authority before crossing the frontier.

3. *Law of January 3, 1920, with regard to false declarations by taxpayers.* (Reichsgesetzblatt, p. 45.)

Paragraph 3 of this law prescribes that property which intentionally was not declared for assessment for war taxes on increased wealth or for the Reichsnotopfer shall be confiscated by the Commonwealth. This confiscation is extended to property abroad which the taxpayer has not declared.

SUB-ANNEX 5.

DRAFT TREATY BETWEEN THE GERMAN COMMON-
WEALTH AND.....REGARDING LEGAL
PROTECTION AND ASSISTANCE IN MATTERS OF
TAXATION.

ARTICLE I.

Taxes within the meaning of the Treaty are the public taxes, in so far as they are levied on the part of the German Commonwealth for the Commonwealth and the States, and on the part of for the State, and on both parts in the form of supplementary taxes or contributions to be collected on behalf of other legalised public bodies uniformly with these taxes.

I. LEGAL PROTECTION IN MATTERS OF TAXATION.

ARTICLE II.

The nationals of one State shall enjoy within the territory of another State the same treatment as regards taxation, and in particular the same protection from the Fiscal authorities, Courts and Fiscal and Administrative Tribunals, as the nationals of that State.

Legal persons, including companies, together with associations of persons, institutions, foundations, which possess no legal personality, but are subject to taxation as corporations, shall enjoy, in so far as they have their seat within the territory of the one State and have a legal status under the laws of that State, the same treatment in matters of taxation (*see* preceding paragraph) in the territory of the other State as the corresponding taxpayers of that State.

II. LEGAL ASSISTANCE IN MATTERS OF TAXATION.

ARTICLE III.

Both States undertake mutually to render official and legal assistance in all matters of taxation and questions concerning the migration of capital and the evasion of taxation, both as regards the assessment of taxes and the ascertaining of securities, and in judicial proceedings and collection of taxes.

ARTICLE IV.

In matters of taxation, all forms shall be served and official and legal application made directly through the authorities of both States, subject to the special provisions regarding collection of taxes (Articles XI-XIII).

The State finance offices are competent to transmit direct application for the serving of notice and other official and legal applications and also to receive them.

If the authority receiving the application is not competent for that district, it shall officially transmit the application to the competent authority and shall without delay notify the authority making the application.

ARTICLE V.

Except in the cases mentioned in Article 6, paragraph 2, the application form shall be made out in the official language of the State making or receiving the application, in so far as no provision to the contrary exists by treaty or in law. In the application form, the authority making the application, the name and profession (status) of the party concerned must be indicated, and, if notice is to be served, the address of the recipient and the kind of form required.

ARTICLE VI.

The competent authority of the State to which application is made is responsible for serving the notice. This authority may confine itself, except in the cases set forth in the next paragraph, to serving the notice by transmitting it to the recipient in so far as he is willing to accept service.

On request by the State making the application, the notice to be served must be made out in the form prescribed by the legislation of the State receiving the application, provided that it is made out in the official language of the State receiving the application (*see* Article V) or is accompanied by a translation into that language. In such cases, the form of application must also be made out in the official language of the State receiving the application or a translation must be appended.

Subject to later agreements, the translation for which provision is made in the preceding paragraph must be certified by the head of the office submitting the application.

ARTICLE VII.

The notice shall either be attested by means of a dated and certified acknowledgment of receipt from the recipient, or by a certificate from the authorities of the State receiving the application, evidencing the fact and date of service and nature of the notice.

ARTICLE VIII.

The authority to whom the application is addressed shall be obliged to attend to the matter and to employ for the purpose all such compulsory measures as are in use for dealing with applications made by the authorities of the State receiving the application, or with any similar request from any of the parties concerned.

Applications shall be dealt with according to the procedure laid down by the laws of the State receiving the application; nevertheless, on demand by the State making the application, special procedure will be adopted, provided it is not in contravention of the laws of the State receiving the application.

The employment of compulsory measures permitted within the territory of the State receiving the application is prohibited, unless the State making the application is in a position to enforce similar compulsory measures in the event of its receiving a corresponding application.

The authority making the application shall be notified, on demand, of the date and place of the proceedings to be carried out in execution of such application. The parties concerned are entitled to attend the proceedings themselves or to cause their representatives to be present, in accordance with the regulations of the State receiving the application.

ARTICLE IX.

No dues or costs may be charged for dealing with applications for service or other applications; subject to later agreements, fees to technical advisers or experts, together with costs to executory organs in the cases mentioned in Article VI, paragraph 2, or entailed by the use of a special form in accordance with Article VIII, paragraph 1, are excepted.

ARTICLE X.

The provisions of this treaty shall apply to legal assistance in the collection of taxes, in so far as Articles XI-XIII do not provide to the contrary.

ARTICLE XI.

Irrevocable ordinances with regard to taxation (decisions, resolutions, orders), shall be recognised and executed free of costs, on demand made by the supreme fiscal administration of one State to a similar authority of the other State. Such recognition must be expressly pronounced.

The ordinances mentioned in the preceding paragraph shall be executed in accordance with the legislation of the State in which execution is carried out without hearing the parties concerned.

A declaration by the competent authority of the State making the application to the effect that the ordinance has become irrevocable must be appended to the application for execution; the competence of this authority shall be certified by the supreme fiscal administration of the State making the application.

Subject to later agreements, the definitive promulgation of the ordinance must be accompanied by a translation in the official language of the State receiving the application (*see* Article V).

The Declaration and the certificate (*see* paragraph 3 of the present Article) and the translation (*see* paragraph 4) shall be attested by the Supreme Fiscal Administration of the State making the application or by a sworn interpreter.

ARTICLE XII.

By virtue of ordinances admitting of execution which have not yet become irrevocable temporary guarantee in the form of confiscation may be demanded in respect of nationals of the State making the application. The party concerned is entitled to obtain the suspension of the confiscation by producing a surety, the manner and amount of which must be set forth in the application.

ARTICLE XIII.

The application for a particular kind of execution or guarantee shall be granted, in so far as this kind of execution or guarantee is sanctioned by the laws of the State making the application and of the State receiving the application, otherwise the nature of the execution and guarantee and the manner in which they are effected shall conform to the laws of the State receiving the application.

ARTICLE XIV.

Official and legal assistance is not granted to nationals of the State receiving the application, whose domicile or permanent residence is within the territory of that State. This provision shall not apply to official and legal assistance in enforcing claims against the taxpayer dating from a period in which he was a national of the State making the application.

Official and legal assistance can be refused if the State, to which application for assistance is made, considers that to render such assistance would impair its own sovereign rights or security.

Applications, in respect of which permissible information, intelligence, or expert opinion would have to be collected within the territory of the State receiving the applications, from persons other than the taxpayers concerned, may be refused, in so far as the State making the applications is not able to demand such information, intelligence or expert opinion under its own legislation. This applies also to applications for information as to actual conditions or legal circumstances, in so far as the knowledge of these conditions or circumstances has been obtained solely from information, intelligence or opinion which there is no obligation to impart in the territory of the State making the application. It applies also to other applications in so far as they can be met only by violating business, professional or trade secrets.

ARTICLE XV.

If the application be complied with wholly or in part, the authority making the application shall be informed without delay

by the authority receiving the application of the manner in which the application has been dealt with.

In so far as the application is not complied with, the authority receiving it shall immediately notify the authority making it stating at the same time the reasons for refusal and other circumstances which have been ascertained and which may be of importance for the furtherance of the matter.

ARTICLE XVI.

The laws of a State concerning official and other secrets shall apply to the enquiries, information, intelligence, expert opinion, and other knowledge acquired by the State in connection with legal assistance in collecting taxes and other moneys.

III. ATTESTATION OF DOCUMENTS.

ARTICLE XVII.

The documents accepted, issued or attested by the Fiscal tribunals of one State, if they bear the seal or stamp of the tribunal, shall be valid for use in the territory of the other State in matters of taxation without further legislation.

The documents include those signed by the clerk of the tribunal, in so far as this signature is sufficient according to the law of the State to which the tribunal belongs.

ARTICLE XVIII.

Documents accepted, issued or attested by the Supreme Fiscal Administration of one of the two States or a high financial authority under it and bearing the seal or stamp of the authority shall be valid for use in the other States in matters of taxation without further legislation.

The two States shall supply a list of the authorities competent in this matter, which can be amended or supplemented by either party by mutual agreement according to administrative procedure.

IV. FINAL PROVISIONS.

ARTICLE XIX.

Both States undertake to conclude an Agreement on the subject of reciprocal legal assistance in the matter of penalties for evasion of taxation. In this connection it is intended to regulate the extradition obligations of both parties in respect of the intentional defrauding of the Revenues and intentional violation of laws concerning the migration of capital and the evasion of taxation, both as regards the persons against whom there is a claim and as regards property confiscated or declared forfeit by a judicial sentence or the irrevocable decision of a finance authority.

ARTICLE XX.

The Supreme Fiscal Administration of both States may conclude further agreements in the meaning of this Treaty. In particular, they may agree as to the conditions for discharging their mutual debts for the proceeds of execution and for determining the average rate of conversion of the sum in respect of which execution is to be carried out.

ARTICLE XXI.

This Treaty, which is drawn up in German and shall be ratified and the exchange of ratification shall take place as soon as possible at It shall come into force on the date of ratification and shall be valid so long as it is not denounced by one of the contracting parties not later than six months before the expiration of a calendar year. In the event of denouncement within the period allowed, the Treaty shall cease to have effect upon the expiration of the calendar year in question.

Both texts of this Treaty are authentic. The Treaty shall be published after ratification in the Laws of each of the two States in both authentic texts.

In token whereof the plenipotentiaries of both States have signed these Treaties and affixed their seals.

ANNEX II.

RÉSUMÉ OF THE BUDGET FOR 1922.

The Budget for the financial year 1922 has been divided into three chief categories in order to ensure a better view.

1. General Administration of the Commonwealth.
2. Administration of State Undertakings.
3. Execution of the Peace Treaty.

In these three groups a distinction must be made between the Ordinary and Extraordinary Budget. The Ordinary Budget contains the continuous and non-recurrent receipts and expenditure which are necessary for the satisfaction of current needs. The following are contained in the Extraordinary Budget.

- (a) Extraordinary Receipts;
- (b) The non-recurrent expenditure for remunerative purposes;
- (c) Those non-recurrent expenses which are unavoidable as a result of the war;
- (d) Those expenses necessitated by the execution of the Peace Treaty which will disappear after a few years.

I. GENERAL ADMINISTRATION OF THE COMMONWEALTH.

(a) ORDINARY BUDGET.

<i>Receipts.</i>		<i>Expenditure.</i>		<i>Marks.</i>
	<i>Marks.</i>			
1. Tax on Wealth and Transport Taxes	...	1. Continuous Expenditure	...	83,637,942,168
2. Customs and Excise	...	2. Non-recurrent Expenditure	...	3,050,913,509
3. Miscellaneous Taxes	...	3. Excess available for the Budget for the execution of the Peace Treaty	...	16,500,000,000
4. Various Administrative Expenses	...		...	
Total Receipts	...	Total Expenditure	...	103,208,855,677

(b) EXTRAORDINARY BUDGET.

<i>Receipts.</i>		<i>Expenditure.</i>		<i>Marks.</i>
	<i>Marks.</i>			
Receipts To be procured by means of a loan	...	Expenditure	...	4,945,117,614
Total Receipts	...	Total Expenditure	...	4,945,117,614

II. ORGANISATION OF ADMINISTRATIVE UNDERTAKINGS.

(a) ORDINARY BUDGET.

<i>Receipts.</i>		<i>Expenditure.</i>		<i>Marks.</i>
	<i>Marks.</i>			
1. Postal and Telegraph Administration of the Commonwealth	...	1. Continuous Expenditure	...	15,926,531,905
	...	2. Non-recurrent Expenditure	...	330,818,980
Total Receipts	...	Total Expenditure	...	16,247,350,885

2. Printing Department of the Commonwealth.

<i>Receipts.</i>		<i>Expenditure.</i>		<i>Marks.</i>
	<i>Marks.</i>			
1. Continuous Expenditure	...	1. Continuous Expenditure	...	481,507,810
2. Excess from Administration of State Undertakings	...	2. Excess from Administration of State Undertakings	...	6,485,473
3. Non-recurrent Expenditure	...	3. Non-recurrent Expenditure	...	11,156,717
Total Receipts	...	Total Expenditure	...	499,150,000

3. Administration of Railways of the Commonwealth.

Receipts.		Expenditure.	
Receipts	Marla.	Continuous Expenditure	Marla.
...	...	...	...
Total Receipts	...	Total Expenditure	...
	71,998,628,000		71,998,628,000

(b) EXTRAORDINARY BUDGET.

1. *Postal and Telegraph Administration of the Commonwealth.*

<i>Receipts.</i>	<i>Marks.</i>	<i>Expenditure.</i>	<i>Marks.</i>
Receipts	78,000,000	Expenditure	2,594,459,750
To be procured by means of a loan	2,456,459,750		
Total Receipts	2,594,459,750	Total Expenditure	2,594,459,750

2. Administration of Railways of the Commonwealth.

Receipts.	Marka.	Expenditure.	Marka.
Receipts	...	Expenditure	...
To be procured by means of a loan	...		...
	6,500,000		...
	6,782,759,000		...
Total Receipts	6,789,259,000	Total Expenditure	6,789,259,000

III. EXECUTION OF THE PEACE TREATY.

<i>Receipts.</i>	<i>Marks.</i>	<i>Expenditure.</i>	<i>Marks.</i>
Excess of General Administration of the Common-wealth	...	Expenditure in the Ordinary Budget	...
"	...	Expenditure in the Extraordinary Budget	...
To be procured by means of a loan	...		
	...		
Total Receipts	...	Total Expenditure	...
	187,631,696,076		187,631,696,076

The figures given above correspond to the draft budget for the financial year 1922, amended in accordance with the resolution of the Reichsrat. This is now before the Reichstag. During the discussions in the Reichstag, further alterations are possible. In consequence of the resolutions taken with regard to the taxation proposals, alterations took place in certain headings under "Receipts." The general result, however, will not be affected.

ANNEX III.

SURVEY OF THE REFORMS PLANNED AND CARRIED OUT IN THE POSTAL AND RAILWAY SERVICES.

A.—RAILWAY ADMINISTRATION.

I.

When the Commonwealth took over the national railways on April 1, 1920, it found these undertakings in a very unfavourable situation from an economic and financial point of view.

In consequence of the economic prostration of the country, traffic had fallen off to such an extent that the existing railways could not be exploited to their full capacity.

The technical plant, in particular the rolling-stock, was so deteriorated by the excessive claims laid upon it during the war, and so diminished by the levies prescribed under the Armistice terms, that at times it could not suffice for the needs of traffic, modest though these needs were.

In consequence of the general relaxation of public order which set in after the collapse, the whole administrative machinery operated in a wasteful and inefficient manner. More especially, during the demobilisation period, there was a certain amount of overstaffing, which, although unavoidable, was also prejudicial to the economy of the service.

The rates remained far behind the rise in expenditure.

In view of the situation, the Commonwealth Railway Administration found itself faced by a number of arduous tasks, for which no immediate solution was possible.

First of all, it was necessary to restore order in the working of the service and in the technical plant (the latter especially being a first necessity), sufficiently to meet the needs of existing traffic.

The technical plant had forthwith to undergo thorough renewal.

Lastly, it was necessary to set about increasing the rates to the level of working expenses, on systematic and progressive lines, which proceeding was attended with extraordinary difficulties. Owing to the headlong fall in the German currency, and the

consequent upward rush of all home prices, it was apparent that a rise in the rates, which, as a rule, for technical reasons, requires a certain time before it can be put into effect, became inadequate even at the moment of its coming into force. It soon became evident that the continuance of the service and the renewal of the technical plant were possible only at the cost of unusually high expenditure.

The following were the main causes for this :—

1. The eight-hour day, in conjunction with the need for finding employment for the steady stream of railway-men and other war-service men returning from the front and the occupied territories;
2. The rise in the cost of material, especially coal;
3. The insufficient output of the workshops, due to the deterioration of technical plant and the abolition of piecework.

These main reasons for deficits are, however, the same as have produced deficits in the case of most of the European railways, and which were established more especially by the Commission of Inquiry of the French Government in 1921 as the reasons for the deficits of the French railways.

The following explanations will be supported by figures showing how far the Commonwealth Railway Administration has succeeded during the 1½ years of its activity in carrying out the duties devolving upon it.

II.

1. *The development of the financial returns of the Commonwealth Railways in general.*

The coefficient of working expenses (relation of the business expenditure to the receipts, when the latter are represented by 100) amounted :

In the year 1920 to 172·9 per cent. ;

In the year 1921 to 121·0 per cent.

In the year 1922 the expenditure will, according to the Budget estimates, be covered by the revenue. *The deficit is eliminated.*

2. *Policy with regard to staff.*

(a) The maximum staff in 1919 was 12·6 per cent. greater than the staff allowed for the draft Budget for 1922.

(b) For the purpose of further reducing the staff a law on the hours of labour will be introduced, which will adapt the eight-hour day to the special requirements of the railway system, by abolishing its purely formal application.

3. *Traffic department.*

(a) The amount achieved (in kilometric axles) will have increased in comparison with the low figure for the year 1919 by 26·3 per cent., according to the draft Budget for 1922;

(b) To improve the efficiency and economy of the railway service, piecework and bonuses will be introduced to a greater extent.

4. *Workshops.*

(a) Piecework has been introduced almost universally.

It has led to a considerable increase in the output of the workshops. In the part of the Commonwealth railway system which corresponds to the zone of the former Prussian-Hessian State Railway, the number of machines examined and repaired in the year 1921 was greater by 104 than in the year 1913.

(b) By a completely new system already introduced in accordance with the guiding principles of scientific organisation (the Taylor system) a further improvement in the efficiency and economy of the shops has been brought about. The same end is pursued in the further development of piecework.

5. *Consumption of materials.*

(a) The consumption of coal for 1,000 locomotive kilometres will be reduced, according to the estimates for 1922, by 14·3 per cent., as compared with the maximum consumption in 1919, and that of train oil by 14·7 per cent.

The consumption of coal might be still further reduced if more suitable qualities could be delivered, such as are not at present available owing to the Reparation deliveries.

(b) An investigation is being made as to the way in which the consumption of material may be still further reduced by stricter supervision and the introduction of a system of bonuses.

6. *Introduction of the continuous brake for goods trains.*

A considerable saving in staff is expected from this measure.

7. *Policy for railway rates.*

Owing to the increases in rates given below, the rates now correspond with the depreciation of the currency within the country (and to some extent surpass it) and from April 1, 1922, they will cover the working costs.

(a) *Passenger rates :*

The passenger rates were raised on June 1 and December 1, 1921; they will be raised once more on February 1, 1922, and will then be about 1,400 to 1,800 per cent. higher than the pre-war rates (that is, they will be fifteen to nineteen times the pre-war rates).

(b) *Goods rates :*

The goods rates were increased on April 1, November 1, and December 1, 1921. They will be further increased as from April 1, 1922, so that they will be roughly 3,120 per cent. or 32 times as high as the pre-war rates.

8. *Commonwealth Railway Finance Law.*

A Commonwealth Railway Finance Law is to be introduced to give greater scope to the organisation and financial returns and to facilitate the application of the economic principles in use in private companies.

9. *New Works.*

The Commonwealth Railway Administration has done its utmost to limit the requirements in respect of funds for the extension of the railway system. It has given up the idea of beginning to construct even one new line and has confined itself to extending gradually the lines begun by the previous owners. Even here it has, in certain cases, suspended building operations as much as possible in the meantime. It has used the utmost restraint in extending and altering stations. Nevertheless, considerable expenditure is necessitated by the new boundaries created by the Peace Treaty and the alterations in the traffic conditions introduced after the war.

The expenditure estimated in the extraordinary budget for 1922 nevertheless amounts to only 1/3 per cent. of the invested capital as compared with an expenditure of 3 per cent. in the last year before the war, 1913.

III.

The above statistics prove that the Commonwealth Railway Administration has succeeded in a comparatively short time in achieving considerable progress in all departments of the railway service. It has not, however, achieved everything; much still remains to be done. The administration is, however, as shown by its intentions, set forth in II (b), Nos. 1-7, firmly determined to neglect nothing which may contribute to the fulfilment of its task.

It has been ensured, by the carrying out of the measures which they introduced, that the Commonwealth Railways will require no subvention from 1922 onwards.

B.—POSTAL ADMINISTRATION.

I.

In the case of the Postal Administration, circumstances developed after the collapse in a way quite similar to that observed in the case of the Railway Administration, so that it is sufficient to refer to what has been said in that connection. The same difficulties had to

be encountered except that there was no question of a delivery of working stock under the Armistice Convention, save to a very limited extent. The degree to which the Postal Administration succeeded in its task is shown in greater detail in II.

II.

1. *The development of the financial returns of the Postal and Telegraph Administration in general.*

The coefficient of working costs (relation of the working expenditure to the receipts, the latter being estimated at 100) amounted in the year 1920 to 162.9 per cent. ;
in the year 1921 to 135.7 per cent.

In the year 1922 the expenditure will probably be covered by the revenue.

2. *Policy with regard to staff:*

(a) The reduction of the staff by dismissal has been systematically pursued. This reduction has, however, been impeded by the simultaneous necessity of providing employees for the considerably increased telephone and postal cheque services.

(b) For the further reduction of expenditure a *law on the hours of labour* is to be passed, as for the railways, which will adapt the eight-hour day to the peculiar conditions of the postal and telegraph service by suspending its purely formal application.

3. *Working expenses:*

As regards the arrangements for service, the most drastic restrictions have been introduced: the hours when the post office is open to the public, the delivery and collection of letters, and all postal connections have been reduced, and some post offices have been closed. Since 1920, about 900 post offices have been closed down. A further retrenchment will be achieved by the substitution of machinery for labour, for instance, by the development of the automatic telephone system, the introduction of labour-saving machines and other technical improvements.

4. *Policy as regards rates:*

The Postal Administration has endeavoured to adapt the rates to the general depreciation of the currency and gradually to realise the principle that the receipts of a concern should cover its expenditure. The rise in the charges, to take effect on January 1, 1922, as compared with pre-war rates, amounts to 2,400 per cent. for postcards and letters, 2,600 per cent. for parcels, 1,900 per cent. for telegrams, and 1,600 per cent. on an average for the telephone.

ANNEX IV.

SCHEME FOR ABOLISHING FOOD SUBSIDIES.

I.—Fiscal Year 1921-22.

During the fiscal year 1921-22, subsidies in respect of meat, bacon, dripping, butter, margarine, milk and fodder have been entirely abolished.

In the Budget of 1921-22 :

	Million marks.
The sum of	5,624
was voted for this purpose.	
Further sums required for 1921-22 :	
(a) For subsidising fodder in order to cheapen food-stuffs, a balance of	2,350
(b) To settle credits previously granted for meat and bacon, a balance of	850
Total	8,824

After the complete abolition of the subsidies for the above food-stuffs and fodder only subsidies for cheapening the bread ration were granted. The abolition of these subsidies was commenced in August, 1921, by raising the price of the bread ration by 40 per cent., that is, by an average of 5 marks to 7 marks for the 1,900-gramme loaf. The price will be raised by a further 75 per cent., or by 7 to 12.25 marks, on February 16, 1922. The following sums have been voted so far in the Budget of 1921 for the bread subsidies :

	Million marks.
For the period from April 1, 1921, to August 15, 1921 (end of the previous cereals control year)	4,045
From August 16, 1921, to March 31, 1922 (end of the fiscal year)	3,270
Total	7,315

Allowing for the rise in the bread prices on August 15, 1921, the 3,270 million marks would have sufficed up to the end of the fiscal year 1921-22 if the value of the mark had not fallen so considerably in relation to the rate on which the Budget estimates were based (65 marks to the dollar). The effect exercised on the subsidies by the depreciated rates of the mark has been all the more appreciable in that a considerable proportion of the foreign grain had to be purchased on credit as from May to September, 1921, on account of the payment of the first gold milliard. These credits had to be settled at precisely the period when the value of the mark stood at its lowest. Thus, in spite of the further increase in the price of bread which is to take place on February 15, 1922, an extra sum of 6,372 millions has become necessary.

The following sums will, therefore, be required for subsidies for the fiscal year 1921-22 :

	Million marks.
1. For breadstuffs	13,687
2. For other foodstuffs and fodder	8,824
Total	<u>22,511</u>

II.—Fiscal year 1922-23.

In the Budget for 1922-23 a subsidy is provided for reducing the price of bread up to the end of the present cereals control year, that is, up to August 15, 1922. For this purpose a further 954 million marks are required.

III.

The estimate of the sums of 6,372 million and 954 million mentioned in I and II is based on an average dollar rate of 180 marks for further payments. These two sums would be increased if the average rate of the dollar were :

I	II
200 marks to 6,747 and 1,668 million marks.	
250 " 7,692 " 3,440 "	
300 " 8,637 " 5,212 "	

13.

LETTER FROM THE REPARATION COMMISSION TO THE GERMAN CHANCELLOR.

21 March, 1922.

The Reparation Commission to the Chancellor of the Reich.

The Reparation Commission, in notifying to the German Government its Decision No. 1841 in respect of the payments to be made by Germany during 1922, makes the following observations in regard to the Chancellor's letter of January 28, 1922.⁽¹⁾

The Commission notes the declarations made by the Chancellor in regard to the suppression of all subsidies on food, and to the increase of the postal and railway tariffs with a view to balancing the expenditure and receipts of State undertakings. At the same time even if it could be supposed, as would not appear to be the case, that all

⁽¹⁾ See page 56.

steps had been taken towards its immediate and complete realisation, such a programme falls far short both of German obligation and of German capacity. The Reparation Commission must give the German Government clearly to understand that it expects a much more radical reform of the finances of Germany and a final abandonment of the mistaken policy hitherto followed.

The ordinary Administrative Budget of the Reich shows a surplus of 16½ milliard paper marks after providing for an expenditure of 83 milliard. The German Government propose to apply this surplus towards meeting the cost of Reparation and other Peace Treaty charges. But, on the other hand, the extraordinary Administrative Budget shows a deficit of some 3 milliard marks, and the Budget for the Administration of Public Services a deficit of 9½ milliard.

The Budget for Peace Treaty charges as submitted (after taking credit for 16½ milliard surplus transferred from the ordinary Administrative Budget), exhibits a deficit of no less than 171 milliard of paper marks, making, with the deficit on the Extraordinary Administrative Budget and Budget for Administration of Public Services, a total deficit of 183½ milliard.

The deficit of 171 milliard on the Peace Treaty Budget is, it is true, based, as regards the Reparation Liability, on the Schedule of Payments. The provisional postponement to-day accorded by the Reparation Commission in respect of the 1922 payments may be expected to reduce this deficit by approximately 45 milliard. On the other hand the Budget calculations are based on an exchange of 45 paper marks to 1 gold mark as against the current rate of 70. The net estimated deficit of 126 milliard will, therefore, be largely exceeded unless a substantial improvement in the value of the paper mark can be effected.

It is stated indeed that an Internal Compulsory Loan is contemplated, but no project has been placed before the Commission which can be regarded by it as in any way likely to afford the requisite guarantee that the Treaty charges will be met.

The Commission is of opinion that the Treaty charges must be progressively, and rapidly incorporated in the Budget, to the full extent to which Germany's revenues can be made to cover them, and that German capital must make the effort necessary to provide the balance by means either of a loan or of a direct levy.

The Commission considers that as from 1922 onward the Budget must cover a substantial part of the reduced payments prescribed by the decision referred to above; the balance as indicated above must be contributed to by capital.

It is with the object of facilitating the task of the German Government in this respect that the Commission has taken its decision. It must, however, be understood that the Scheme of Payments for 1922 therein laid down is provisional, and that the postponement

provisionally granted can only be definitely maintained if Germany strictly observes the condition imposed upon her.

These conditions are as follows :

I.—BUDGET OF THE REICH.

A.—RESOURCES.

Measures to be adopted.—(a) Each of the measures announced by the German Government's Note of January 28, 1922, which according to the Note are to come into force at fixed dates, shall be taken at the date in question ; if this date has passed without the measure having been taken, it shall be taken within fifteen days of the present notification.

(b) The new taxes and charges contained in the programme of January 26, 1922, generally known in Germany as the " fiscal compromise," shall be voted and applied before April 30, 1922.

(c) The German Government must at once prepare and put into force such a scheme of increased taxation as will provide during the currency of the Budgetary year 1922-1923 a sum of at least 60 milliard paper marks in addition to the revenue estimated for in the Budget.

This scheme must have been voted and be in force before May 31, 1922, and must secure the actual collection of not less than 40 milliard of additional revenue before December 31, 1922.

(d) In the opinion of the Commission it is for the German Government to choose the sources from which the new revenue is to come. Nevertheless, the Commission impresses upon the German Government the necessity of adopting a scheme which will avoid as far as possible a new and complicated assessment of the resources of individual taxpayers. In this connection the Reparation Commission particularly invites the German Government to consider the possibility of some arrangement under which the rates of taxation would be automatically increased in proportion either to any further increases in the debt of the German Government to the Reichsbank or to the diminution of the internal purchasing power of the mark.

Methods of Supervision.—(a) All laws and regulations adopted in execution of the above provisions shall be immediately communicated by the German Government to the Reparation Commission.

(b) The measures for the application of the German laws and regulations relating to taxes and tariffs as they stand after carrying out the programme set forth above shall be discussed between the delegates of the German Government and those of the Reparation Commission. The latter shall, through the Committee of Guarantees, exercise at each stage a supervision sufficiently thorough to enable it at all times to follow the progress made in carrying out this legislation, more especially in the work of assessing and collecting the taxes, and to bring to light any defects. If occasion

arises, it will request Germany to take the measures necessary to remedy such defects, and in the event of Germany failing to adopt, within a reasonable time, such measures as the Commission considers to be sufficient, it will pronounce upon such failure.

B.—REDUCTION OF EXPENDITURE.

Measures to be adopted.—The German Government shall carry out and submit to the Reparation Commission within one month of the present notification a revision of the expenditure entered in the draft budget for 1922 submitted as an annex to its Note of January 28, 1922.

A serious effort, of which only a beginning is made in the scheme enclosed with the communication of January 28, can and must be made towards the reduction of expenditure on the public services, and towards the suppression of subventions and subsidies of expenditure on public works not urgently required, of sumptuary expenses, and of contributions to the expenses of various administrative and other organisations, etc.

The expenditure shall in no case exceed, either for the total budget or for any head thereof, the sums entered in the budget of expenditure thus revised, save in exceptional cases and after corresponding credits have been duly voted; in such cases the Reparation Commission shall receive immediate notification.

The German Government shall abstain from transferring to local budgets any service or category of expenditure at present included in the budget of the Reich, under the terms of the draft budget of 1922, enclosed with the Note of January 28, 1922.

Method of supervision.—The German Government shall work out, in agreement with the Reparation Commission, a system for checking the expenditure provided for in the budget, in such a way as to prevent the credits from being exceeded and so as to show clearly the actual use to which the funds are put. The Committee of Guarantees will audit the working of this check.

II.—LOANS AND LEVY ON CAPITAL.

(a) *Internal loans :*

The German Government shall, before April 30, 1922, prepare a scheme for the issue of internal loans other than Treasury Bills discounted by the Reichsbank sufficient in amount to cover the budget deficit until such time as the budget can be balanced by means of the receipts from taxes.

(b) *Foreign loans :*

The important question of loans to be contracted by Germany in order to enable her to redeem a portion of her capital reparation debt will form the subject of a separate communication.

If a portion of Germany's debt cannot be mobilised by such loans within a reasonable period, the German Government shall, in co-operation with the Reparation Commission, examine the measures necessary to effect a capital payment by other means, in particular by a levy upon German real and personal property.

III.—MIGRATION OF CAPITAL.

The German Government shall submit to the Reparation Commission, before April 30, 1922, a scheme for preventing the abusive export of capital.

The special object of this scheme must be to render more effective the operation of the organisation created by the German Government for the collection of the foreign currencies arising out of exports and services of every kind, and in general to make sure that the value of exports returns to Germany.

The Committee of Guarantees will draw up with the German Government a scheme for the strengthening and development of the check which it at present exercises over exports and the collection of currencies to such extent as may be necessary to ensure the effective supervision of the execution of the measures referred to above.

Finally, the German Government shall take all possible steps to obtain the return to Germany of the capital already exported.

In view of the importance which the Reparation Commission attaches to the question of preventing the future migration of capital and of ensuring the return to Germany of the capital already exported, this question will be the subject of further examination by the Reparation Commission. The application by the German Government of any supplementary measures which the Reparation Commission may think it necessary to require is one of the conditions of the postponement.

IV.—AUTONOMY OF THE REICHSBANK.

The German Government shall adopt, in time for it to come into force before May 31, 1922, the legislation necessary to ensure, to the satisfaction of the Reparation Commission, the complete independence of the Reichsbank in relation to the German Government.

V.—STATISTICS.

The German Government shall before May 31, 1922, resume the preparation and publication of its economic and financial statistics, in the same form and at the same intervals as before the war. It shall also prepare at such intervals as may be determined by the Reparation Commission in each case, any new statistics or any new presentation of statistics in existence before the war which the Commission may consider to be useful with a view to the execution of the Treaty and in particular of the present provisions.

The German Government shall, in collaboration with the Committee of Guarantees, see that the statistics are presented under conditions which will facilitate the work of the Reparation Commission.

The German Government shall place at the disposal of the Committee all documents and information necessary for the accomplishment of its task and shall give it facility asked for, for carrying out its investigations.

VI.—QUESTIONS IN ABEYANCE.

The granting of the postponement is also subject to the settlement, to the satisfaction of the Reparation Commission, of certain questions now pending, which will form the subject of a further communication.

(Signed) DUBOIS.
DELACROIX.
JOHN BRADBURY.
d'AMELIO.

14.

LETTER FROM THE REPARATION COMMISSION TO THE GERMAN GOVERNMENT.

Paris, March 21, 1922.

The Reparation Commission.

To the German Government.

The Reparation Commission has the honour to notify the German Government the attached decision which it has reached to-day.

(Signed) DUBOIS.
JOHN BRADBURY.
d'AMELIO.
DELACROIX.

March 21, 1922.

THE REPARATION COMMISSION,

Having had before it the request for postponement contained in the letter of December 14, 1921,⁽¹⁾ from the German Chancellor, as well as the documents submitted on January 28, 1922, by the German Government in support of this request,⁽²⁾ in execution of the decision adopted by the Reparation Commission on January 13, 1922,⁽³⁾ and after giving the German Government a just opportunity of being heard.

(¹) See page 50.

(²) See page 56.

(³) See page 55.

Acting in virtue of the powers conferred upon it by Articles 234, 236, 240, 248 and 251, and by paragraphs 12, 19 and 19 bis of Annex II to part VIII of the Treaty of Versailles, as well as of the powers delegated to it by the Allied Governments for the execution in their name of Article 249 of the said Treaty.

Considering that the financial situation in which the German Government has allowed itself to become involved makes it impossible for it to discharge in their entirety Germany's obligations for 1922 as set forth in the Schedule of Payments of May 5, 1921, on the one hand, and in Article 249 of the Treaty of Versailles on the other, and at the same time to rehabilitate the finances of the Reich sufficiently to ensure the regular discharge of its obligations in subsequent years.

Decides that :

I.

Germany shall pay, in 1922, in respect of the Schedule of Payments of May 5, 1921, as well as in respect of Article 249 of the Treaty of Versailles (exclusive of the obligations imposed upon her by Article 8 to 12 of the Arrangement of June 28, 1919) :

(a) 720 million gold marks in cash.

The above sum includes the sum of 281,948,920 marks 49 pfennigs gold representing the cash payments already made by Germany towards the instalments required by the Reparation Commission in 1922.

The balance, that is, 438,051,079 marks 51 pfennigs gold shall be paid in the following instalments :

18,051,079 marks 51 pfennigs gold	...	on April 15, 1922.
50,000,000 marks gold	...	on May 15, "
50,000,000 "	...	on June 15, "
50,000,000 "	...	on July 15, "
50,000,000 "	...	on August 15, "
50,000,000 "	...	on Sept. 15, "
50,000,000 "	...	on Oct. 15, "
60,000,000 "	...	on Nov. 15, "
60,000,000 "	...	on Dec. 15, "

Any sums paid in cash by Germany to the Reparation Commission up to December 15, 1922, inclusive, and any other sums payable in cash to the Reparation Commission which, under the terms of decisions already adopted or to be adopted by the latter, fall to be credited against the annuity liability of Germany for 1922 as laid down by Article 4 of the Schedule of Payments, shall be deemed to be cash paid towards the above instalments.

(b) In kind : the equivalent in goods of 1,450 million gold marks, of which 950 million shall be delivered to France and 500 million to the other Allies, in so far as France or the other Allied Powers,

or their respective nationals, may call for such deliveries under the procedure of the Treaty or any procedure approved by the Reparation Commission.

The proceeds of the British "Reparation (Recovery) Act" and of any similar legislation enacted or to be enacted by the other Allied Governments in execution of the decision of the Allied Governments of March 3, 1921, shall be deemed to be payment in kind.

If the Reparation Commission finds, in the course of the year 1922, that deliveries in kind called for by France or her nationals or by any other Power entitled to reparation or its nationals in accordance with the procedure laid down by the Treaty or in virtue of a procedure approved by the Reparation Commission and within the limits of the figures above indicated have not been effected by reason of obstruction on the part of the German Government or on the part of its organisations, or by reason of a breach of the procedure of the Treaty, or of a procedure approved by the Reparation Commission, additional equivalent cash payments shall be exacted from Germany at the end of 1922 in replacement of the deliveries not effected.

II.

The payments in kind effected by Germany to a Power which is a creditor of Germany in respect of the costs of an army of occupation between May 1, 1921, and December 31, 1922, shall first be charged, to the due amount, with the costs of the Armies of Occupation during the same period, and only the balance shall be reckoned together with the cash payments as available towards meeting the reparation annuity as laid down by Article 4 of the Schedule of Payments of May 5, 1921.

III.

The difference between the sums due in virtue of the Schedule of Payments and in respect of the Armies of Occupation and the sums actually paid in 1921 and 1922, shall, together with interest at 5 per cent. per annum, remain an obligation upon Germany to be discharged in addition to the annuities under the Schedule of Payments as soon as the Reparation Commission shall consider this within her capacity.

IV.

The postponement hereby granted is in the first instance provisional only.

The Commission will, on May 31 next, examine the progress made by the German Government towards satisfying the conditions laid down in the Reparation Commission's letter of even date and

after such examination will confirm or cancel this provisional postponement.

If it is cancelled, the amounts provisionally postponed under the decision of January 13, 1922, and under this decision, will become due and shall be paid within fourteen days of the date of cancellation, under penalty of the application of the procedure contemplated by paragraph 17, Annex II to Part VIII of the Treaty.

If, however, this provisional postponement is confirmed, and if the Reparation Commission is subsequently satisfied that Germany has failed to carry out the conditions laid down, the postponement will be cancelled, and the Schedule of Payments, as communicated to Germany on May 5, 1921, will again come into operation as from the date of cancellation.

15.

REPLY FROM THE GERMAN GOVERNMENT TO THE REPARATION COMMISSION.

Berlin, April 7, 1922.

The Chancellor of the German Commonwealth,
To the Chairman of the Reparation Commission.

The German Government has the honour to acknowledge the receipt of the decision adopted by the Reparation Commission on March 21, 1922, and also of the letter under the same date addressed to the Chancellor.⁽¹⁾

Since December 14, 1921, when the German Government addressed to the Reparation Commission its request for a moratorium,⁽²⁾ Germany's financial difficulties have exceeded all forecast. The dollar, which in January had averaged 180 on the Berlin Exchange, and 200 in February, gradually improved in March as a result of the system of ten day payments, and then remained above 300 as a result of the decision of the Reparation Commission. In addition to this annihilation of the purchasing power of the mark abroad, there was a decrease in the internal purchasing power leading to serious economic and social difficulties. Every week the cost of living increased, and the prices of certain indispensable foodstuffs have risen 60 or even 70 fold. Even the price of bread, which is now artificially kept down, was, at the end of March, 25 times as high as before the war. From January to the end of March, the price of coal, including the tax, increased from 35 to 70 times that of the pre-war figure, and the price of cotton from 65 to 95 times the pre-war figure. The January prices of household effects, furniture, linen, etc., were increased in March by more than 100 per

⁽¹⁾ See page 118.

⁽²⁾ See page 50.

cent. The rise in the cost of living has caused terrible distress among a large portion of the German population. This situation is all the more serious in view of the fact that, notwithstanding the drop of from 55 per cent. to 60 per cent. which has occurred since 1913 in the consumption of meat, and that of about 24 per cent. in the consumption of bread, Germany is obliged to import foodstuffs at the rate of $2\frac{1}{2}$ milliard gold marks per annum. The importation of wheat, necessary to maintain the bread ration in 1922, will alone cost 500 million gold marks. If it is impossible to procure the currency for this purchase, the result will be famine. The situation which will arise in the summer causes serious apprehension on the part of the German Government. If it proves impossible to check the depreciation of the mark, it will finally be worthless abroad and Germany will thereby become insolvent. This catastrophe must be avoided in the interest, not only of Central Europe, but of the whole world. Gold payments would be especially responsible for such a disaster.

For this reason the German Government is obliged to request the Reparation Commission to reconsider its decision of March 21, 1922.

The German Government is convinced that when the Reparation Commission has, in accordance with Article 234 of the Treaty, carefully examined Germany's capacity to pay, it will find that this request is justified.

This further examination of Germany's capacity, in accordance with Article 234, which the German Government requests the Commission to make, will be extremely difficult and extraordinarily important. From both a scientific and practical standpoint the questions arising will be of a new order. For this reason the German Government proposes that this examination be carried out under the supervision of the Commission by experts not belonging exclusively to the States concerned.

The Reparation Commission should extend its examination to the question specially indicated in the Treaty of Versailles in regard to the comparison of the German fiscal system with that of the Powers represented on the Commission. This question must be answered as convincingly as possible in consideration of the difficulties connected with it, which have recently been several times recognised by the Allies themselves. Annex I to the German Note of January 28, as well as the sub-annexes, contains explanations of this question, accompanied by figures. These explanations are not mentioned in the communication of the Reparation Commission of March 21, and have not up to the present time been refuted.

In its Note of January 28 the German Government expressed its conviction that only by means of a foreign loan will it be possible to procure the currency necessary to cover the reparation payments,

and that this is the only possible way of re-establishing the equilibrium of the exchange. Events since that time have confirmed the conviction of the German Government. Only by such a loan will it be possible to make the cash payments for 1922. A portion of the loan might be used to stabilise German exchange. In the meanwhile the Reparation Commission has decided to entrust the examination of this question to a special commission of experts, composed of a representative from a neutral country and of one from Germany. The German Government hopes that this examination will produce practical results as soon as possible.

The German Government is, however, of opinion that any loan in favour of reparation payments could not succeed unless the lenders were assured that this loan would serve, not only to cover a number of annuities, but all currency obligations arising from the Treaty of Versailles in particular those arising from the system of clearing offices. Moreover, the execution of cash payments arising from Article 297 *e* of the Treaty should be postponed until Germany's capacity to make payment improves so as to make this possible.

It will be necessary to settle the question of guarantees in connection with the definitive determination of the amount of reparation payments in kind incumbent on Germany, on the basis of a further examination of Germany's capacity. The German Government cannot even consent to the guarantees demanded in the communications of the Reparation Commission of March 21, in so far as these guarantees exceed those submitted in the German Note of January 28. The demand to create new taxes to the amount of 60 milliard and the measures of supervision proposed are in contradiction to the unequivocal statements made by the Allies in their Note of June 16, 1919. These new requirements are moreover physically impossible to execute. This is especially true with regard to the new taxes exceeding the fiscal compromise by 60 milliard. In the present situation, the burden of taxation contemplated by the fiscal compromise is as heavy as it is possible to impose on the German nation and its economic system. Furthermore, in view of the collapse in the rate of exchange, the budgetary figures relating to the principal taxes will be increased, and the raising of a forced loan referred to in the Note of January 28 has moreover been approved by the legislative bodies. It is estimated that it will yield the figure representing the increase in taxation required by the Reparation Commission. The loan is for the most part to be floated in 1922. For a period of three years, no interest will be paid, and it will therefore have the effect of a tax levied exclusively on wealth.

In regard to the supervision contemplated by the Reparation Commission, the German Government cannot consent to any form of supervision incompatible with Germany's financial independence. The German Government is prepared to furnish the Reparation

Commission with any information it may require on the situation and on the financial operations carried out in Germany. No Government, however, could allow a foreign country to exercise any definite influence in the creation and application of legislative measures.

The German Government thinks that, for the present, it should confine itself to these proposals and to general statements, since it assumes that the details and other points referred to in the communications of the Reparation Commission may form the subject of special discussions.

(Signed) Dr. WIRTH.

16.

LETTER FROM THE REPARATION COMMISSION TO THE GERMAN GOVERNMENT.

April 13, 1922.

The Reparation Commission
to
The German Chancellor.

The Reparation Commission has the honour to acknowledge the receipt, on the 10th instant, of the letter of the German Chancellor bearing date the 7th instant.⁽¹⁾

The Commission notes with surprise and regret that the principal conditions subject to which the Commission granted a moratorium to Germany are categorically rejected by the German Government.

In particular, the German Government declare their inability :—

- (1) To impose any new taxation beyond that contemplated by the "fiscal compromise."
- (2) To provide any foreign exchange for reparation purposes otherwise than by a foreign loan.
- (3) To accept any sort of control of German fiscal or administrative arrangements, on the ground that such control is derogatory to German sovereignty.

(1) As regards the first point, it is obviously essential that the whole of the expenditure to be defrayed by the German Government in German money, whether for reparation or for other purposes, should be met from the real resources of the German people without recourse to further monetary inflation.

As indicated in its letter of March 21, 1922, the Commission is entirely disposed to contemplate that a considerable proportion of this expenditure should in 1922 be met by internal loans, compulsory or voluntary. The German Government itself, however,

⁽¹⁾ See page 121.

does not contemplate as possible the raising of the whole amount of the deficit by compulsory loan, and there is obviously little prospect of its credit with its own people being sufficiently re-established to permit of the raising of voluntary loans until a better demonstration of its fiscal courage is forthcoming, *e.g.*, in regard to the taxation of current industrial and commercial profits, than is supplied by the proposals of the fiscal compromise.

The Commission accordingly remains of opinion that an immediate and drastic increase of taxation above the proposals of the fiscal compromise is essential in the interests of Germany herself. It has, therefore, at the moment no alternative but to maintain in their entirety the conditions as to additional taxation laid down in its previous letter, although it is quite prepared to consider any plan which the German Government may be able itself to propose giving a reasonable prospect of dealing satisfactorily with the whole of the budget deficit.

(2) As regards the second point, it is equally clear that any hope of a considerable German foreign loan before a serious effort has been made to restore internal budget equilibrium is chimerical.

The replies of the German Government on the first two points, taken together, are therefore tantamount to a refusal to make any serious effort to provide foreign currencies for reparation altogether.

(3) As regards the third point, the Commission sees nothing in the conditions laid down in its letter of March 21 which in any way justifies the disquietude expressed by the German Government. The Commission has in no way trespassed upon either the powers of initiative or the responsibilities in matters of taxation or of expenditure either of the German Government or of the German Legislature. It has confined itself to insisting on the one hand on general dispositions by Germany for securing that adequate provision is made for meeting her reparation obligations in priority to avoidable expenditure for domestic purposes, and, on the other hand, on the German Government doing their part in providing the Commission with the machinery for satisfying itself that these general dispositions are properly and faithfully carried out by the German Government. These requirements give the German Government no ground for complaint upon the terms either of the Treaty itself or of any assurances given by the Allied Governments.

Further, it must be remembered that Germany has petitioned for postponement of her obligations under the Treaty and the Schedule of Payments, and that, in according such postponement, the Commission was within its rights in imposing whatever conditions it might regard as necessary. The conditions of the grant of the provisional moratorium notified to the German Government by the letter of March 21, 1922, were laid down after careful consideration, and the Reparation Commission cannot but hope that the intransigent attitude taken in the German note was adopted without adequate consideration of its necessary consequence.

The Commission has no desire to set for the German Government or the German people an impossible task. On the contrary, it wishes to co-operate with Germany in the measures necessary for the restoration of her economic and financial fabric. But it is an essential condition for such co-operation that not only the principles, but also the machinery of the Treaty of Versailles should be respected.

If the attitude adopted in the Chancellor's Note is persisted in, any further discussion between the Commission and the German Government is obviously impossible.

If, however, on further consideration the German Government withdraw their challenge of the right of the Commission to impose its decisions, the Commission is ready to examine any practicable suggestions which may be put forward by the German Government for meeting the difficulties in which they are placed.

In the meantime, the Commission must not, in making this declaration, be understood as in any way withdrawing or suspending the operation of its decision of March 21, or of the conditions imposed by its letter of the same date.

(Signed)

DUBOIS.
JOHN BRADBURY.
SALVAGO RAGGI.
BEMELMANS.

17.

LETTER FROM THE KRIEGSLASTENKOMMISSION TO THE REPARATION COMMISSION.

Deutsche Kriegslastenkommission.

Paris, April 24, 1922.

To the Reparation Commission, Paris.

In its letter of March 21, 1922, to Dr. Wirth, Chancellor of the Commonwealth, the Reparation Commission requested the German Government to revise the estimated expenditure of the draft budget for 1922, which was annexed to its note of January 28, 1922, and to submit this revised statement to the Commission within a month from the date of notification.⁽¹⁾

I have the honour to inform you on behalf of the German Government that the draft Commonwealth budget for the financial year 1922 is at present before the Reichstag, which is carefully examining it. Upon the completion of this examination by the Reichstag, the Reparation Commission will be informed of the result.

(Signed) FISCHER.

⁽¹⁾ See page 113.

18.

**LETTER FROM THE KRIEGSLASTENKOMMISSION
TO THE REPARATION COMMISSION.**

Deutsche Kriegslastenkommision.

Paris, April 25, 1922.

To the Reparation Commission, Paris.

In a letter to Dr. Wirth, Chancellor of the Commonwealth, dated March 21, 1922,⁽¹⁾ the Reparation Commission requested the German Government to vote the new taxes and duties, which appeared in the programme of January 26, 1922, generally known in Germany as the "fiscal compromise," and to put them into force before April 30.

I have the honour to transmit to you herewith a copy of the Reichsgesetzblatt, No. 30, of April 20, 1922 ⁽²⁾, which shows that, after being voted by the Reichstag, the law regarding the alterations in the German financial system was promulgated by the President of the Commonwealth on April 8, 1922. This law contains the taxes and duties provided for in the "fiscal compromise."

(Signed) FISCHER.

19.

**TELEGRAM FROM THE CHANCELLOR OF THE
COMMONWEALTH TO THE REPARATION
COMMISSION.**

SS Genua del WG Allemande 375 181 2 11/15.

With reference to the conversations held between Herr Fischer and certain members of the Reparation Commission, I have the honour to make the following communication. I regret to state that, owing to the fact that certain members of the Government are obliged to be at Genoa, it has been impossible to complete the very complicated examination of the questions raised by the Commission's Notes of March 21⁽³⁾ and April 13, 1922,⁽⁴⁾ to which the German Government was asked to reply by April 21 and 30 respectively. The German Government considers that it would be advisable to hold an oral discussion on these questions. Herr Bergmann will be in Paris to-morrow to furnish explanations. Moreover, Minister Hermes will go to Paris early next week to discuss

⁽¹⁾ See page 113.⁽²⁾ This document has already been published by the German Government and is not reproduced here.⁽³⁾ See page 113.⁽⁴⁾ See page 124.

these questions with the Reparation Commission. In these circumstances the German Government would be obliged if the Reparation Commission would postpone consideration of these questions until the arrival of Herr Hermes.

WIRTH.

20.

LETTER FROM THE GERMAN GOVERNMENT TO THE REPARATION COMMISSION.

Berlin, May 9, 1922.

The Chancellor of the Reich,
To the Reparation Commission, Paris.

The German Government are glad to gather from the note of the Reparation Commission of April 13 inst.⁽¹⁾ and from the conversations which have recently taken place that the Reparation Commission shares the desire of the German Government to remove certain misunderstandings which have arisen out of the previous notes and to clear the present situation by way of a full exchange of views. In order to further these endeavours the German Government have the honour to declare the following :

1. The German Government are convinced of the necessity to cover the whole of the outgoings of the State in the form of paper marks by receipts from taxation and internal loans not involving further monetary inflation. The German Government also recognise the necessity of taking immediately further steps to secure the carrying out of the principle above stated. Having regard, however, to the German economic situation and financial obligations abroad, it is considered inevitable that important payments due by Germany in foreign currency cannot be met without the aid of foreign loans.

While it remains impossible, in view of the heavy increases of taxation so recently made, to comply with the demand of the Reparation Commission for the imposition of further taxation to the amount of 60 milliard before May 31, 1922, the German Government will be prepared before that date to submit to the Commission a complete scheme for the purpose of giving effect to the principle enunciated in the previous paragraph.

2. The German Government notes with satisfaction that the Reparation Commission recognises the sovereignty of Germany in questions of public expenditure, taxation and financial policy generally. The German Government notes with like satisfaction that the Commission desires to support Germany in regulating her

⁽¹⁾ See page 124.

finances. To this end the German Government will be prepared to afford to the Reparation Commission all the facilities for investigation asked for by the Commission. For the same purpose the German Government, during the time of the regulation of the reparation payments, as provided for by the decision of the Commission of March 21, 1922, will be prepared to consult with the Reparation Commission as regards the legislative projects planned by the German Government in above mentioned financial matters.

3. The German Government, besides, will use its best endeavours to comply with the conditions laid down in the note of the Reparation Commission of March 21, 1922. It remains of the opinion, however, that some of these conditions are incapable of fulfilment, but it relies on the offer made by the Commission in its letter of April 13 "to examine any practicable suggestions which may be put forward by the German Government for meeting the difficulties in which they are placed."

The German Government regrets that, owing to the prolonged absence of several of its members from Germany by reason of the Genoa Conference, it has not been possible to observe some of the time limits laid down in the note of March 21, and requests that a reasonable extension of these limits should be granted by the Commission.

(Signed) BAUER.

21.

REPLY FROM THE GERMAN GOVERNMENT TO THE REPARATION COMMISSION.

TABLE OF RECEIPTS AND EXPENDITURE.

Berlin, May 28, 1922.

The Chancellor of the Commonwealth.

To the Chairman of the Reparation Commission, Paris.

Referring to its note of May 9 and to the negotiations which in the meantime have been held at Paris, the German Government has the honour to communicate herewith to the Reparation Commission the plan for receipts and expenditure of the Commonwealth for the fiscal year 1922, in accordance with the letter of the Reparation Commission of March 21, 1922, and with the above-mentioned note of the German Government of May 9, 1922. This plan has been drawn up after a thorough examination of the subject.

In regard to the receipts, the table shows an increase in the figures included in the Budget now under discussion by the Reichstag. This increase is due to a new estimate of the yield of German taxes, including those of the fiscal compromise, and takes into account the actual returns for the past year as recently determined, as well as the increase in the depreciation of the mark since the last estimate.

In regard to the expenditure, the following remarks are submitted :

The subsidies to public services are abolished. In 1922 the expenditure provided to reduce the price of foodstuffs amounts to only 950 million as against 17.2 milliard in 1921. The other subsidies and grants have been abolished in so far as existing obligations allowed and in so far as it was possible to modify the administrative organisation. Other expenses have also been abolished. By these means the expenditure provided for in the 1922 Budget is 24.5 milliard less than that in the 1921 Budget.

As will be seen from the final observation in the enclosed table, the extraordinary Budgets of the general administration and of the public services contemplate economies amounting in all to at least three milliard marks.

Measures have been taken with a view to further economy in the administration of the Reich. In order to guarantee the execution of those measures, the German Government has resolved to appoint a special commissioner for this purpose to be attached to the Ministry of Finance.

FLOATING DEBT.

The German Government are determined to make the most strenuous endeavours to prevent any further increase of the floating debt. They are, however, convinced that in present financial conditions such efforts cannot be carried through unless Germany receives reasonable assistance in the way of a foreign loan.

Provided such assistance becomes available without undue delay, the German Government will undertake to deal with the question on the following basis :

1. The amount of the floating debt as it stood on March 31, 1922, is from now onwards to be the normal maximum.
2. If on June 30, 1922, or on the last day of any subsequent month the amount of the floating debt exceeds the normal maximum, steps will be taken to secure that the excess is repaid within the three months following either :
 - (a) By means of receipts in excess of outgoings in that quarter in so far as such excess receipts may be available ; or
 - (b) By the raising of credits otherwise than from the Reichsbank and in a form not giving rise to fiduciary inflation.

If notwithstanding these steps the amount of the floating debt at the end of any such quarter still exceeds the normal maximum, the German Government will forthwith introduce and use their best efforts to get accepted by the German legislation proposals for additional taxation, to yield within the financial current year, or if more than half of the financial year has been expired, within a period of six months, an amount not less than the excess which has already arisen and any further excesses which may be estimated as likely to arise up to the end of that financial year.

The above undertaking is for the time being subject to the following conditions :

- (a) Pending receipts from a foreign loan or loans available to cover the payments made by the German Government in foreign currencies in satisfaction of obligations under the Treaty of Versailles since April 1, 1922, an amount equal to the equivalent in paper marks of the aggregate amount of such payments for the time being not so covered shall be added to the amount of the floating debt as it stood on March 31, 1922, for the purpose of determining whether there is an excess, and, if so, the amount of the excess over the normal maximum.
- (b) Any receipts from foreign loans shall, until an amount of the floating debt equal to such addition has been repaid, be applied to such repayment in priority to any other purpose, saving only such obligations payable in foreign currencies under the Treaty of Versailles and such other charges as may be specifically approved on the request of the German Government by the Reparation Commission.

SUPERVISION.

On the basis of the letter which the Reparation Commission addressed to the Chancellor of the Reich on March 21, 1922, the German Government agrees to the principle of supervision laid down in this letter. It understands that such supervision will in no way affect the sovereignty of the German Government, will not disturb the working of the administration, and will not violate the secrecy of the fortune or of the private affairs of taxpayers.

In regard to the receipts, the German Government will, without delay, communicate to the Committee of Guarantees all legislative provisions and regulations. It will deliberate with the Committee of Guarantees the measures to be adopted for the application of fiscal and tariff legislation, and will give the Committee all necessary facilities for supervising the execution of such legislation.

In regard to expenditure, the German Government wishes to state that there already exists in Germany a system for supervising expenditure tending to prevent any overdrawing of credits and that it is prepared to take every necessary measure to strengthen the

action of this supervision. The German Government will give the Committee of Guarantees every facility for ascertaining the efficiency of the supervision exercised.

The above-mentioned measures of supervision will be the subject of detailed deliberations with the Committee of Guarantees.

FLIGHT OF CAPITAL.

Owing to the amount of work involved, particularly in regard to the drawing up and the voting of the fiscal compromise, and the absence of a considerable number of its members for several weeks at the Genoa Conference, the German Government has been unable to reach any definitive results in its deliberations relative to the question of new proposals concerning the measures to be taken with a view to obtaining the return of capital and to preventing its flight. Nevertheless the German Government is in agreement with the Reparation Commission in thinking that every effort must be made to attain this object.

In the circumstances, the German Government attaches very special importance to the return of evaded capital. It will take every measure necessary to obtain its return by means of a foreign or internal loan. Furthermore, the German Government is prepared to discuss in detail with the Committee of Guarantees the steps to be taken against the flight of capital and, on the basis of such discussion, to adopt any measures that may be deemed useful for the purpose.

The German Government will, before June 30 next, submit to the Reparation Commission a programme setting forth the measures referred to above.

AUTONOMY OF THE REICHSBANK

The absolute independence of the Reichsbank in regard to the German Government is ensured by the Law of May 25, 1922.

STATISTICS.

The German Government has issued instructions to the effect that the publication of statistics be resumed on the same basis as that adopted before the war; it will transmit to the Committee of Guarantees a memorandum giving particulars as to the present situation in regard to these publications, and begs to propose that the questions relating to statistics be discussed in detail with the Committee of Guarantees.

The German Government has made the foregoing declarations on the assumption that the Reparation Commission are now going to confirm the settlement of reparations for the year 1922 as laid down in its Decision of March 21, 1922.

(Signed) Dr. WIRTH.

PLAN FOR COVERING THE EXPENDITURE OF THE COMMONWEALTH DURING THE FISCAL YEAR 1922,

drawn up after a thorough examination of the subject in accordance with the letter of the Reparation Commission of March 21, 1922, and the Note of the German Government of May 9, 1922.

- I. Ordinary receipts and expenditure of the General Administration of the Commonwealth.
- II. Execution of the Peace Treaty.
(Expenditure and means of covering it).
- III. Final observation.
(Extraordinary requirements of the Commonwealth, including those of the Department of Public Services).

I.

ORDINARY RECEIPTS AND EXPENDITURE OF THE GENERAL ADMINISTRATION OF THE COMMONWEALTH.

RECEIPTS.

	Milliard marks.
1922 Budget (on the basis of previous estimates) ...	115.5
The depreciation of the mark and the facts recently ascertained concerning tax returns make it possible to anticipate the following surplus sums for 1922 :	
Income tax	5.
Tax on income from capital	.5
Tax on turnover	4.5
Tax on transfer of personal capital	1.
Tax on transportation of goods	1.
Customs duties and export charges	10.7
Coal tax	11.
Tobacco tax	2.
Monopoly on spirits	3.25
Wine tax	.25
	39.2
	154.7
There has just been added the returns from the forced loan provided for 1922	
	40.
TOTAL RECEIPTS for 1922	194.7

EXPENDITURE.

Milliard
Marks.

According to facts published up to the present, the expenditure of the ordinary budget for 1922 was estimated at 89.2

There have just been added :

1. For increase in salaries as from April 1, 1922	...	...	...	3.8
2. Increase in material expenditure	...			1.5
3. For military pensions (war veterans)	...			3.3
4. For mutual policy holders (Sozial-rentner)	...	...	...	1.
5. For persons dependent on small incomes	...	...	...	.3

 9.9

To be deducted : reduction of legal shares of the several provinces 1

 9.8

Expenditure according to estimates at the end of April, 1922 99.0

There have just been added :

(a) Increase in subsidies for the high cost of living, as from May 1, 1922 : 11/12 of 4 milliard marks, that is, about 3.7 milliards	...	...	...	3.7
(b) Increase in expenditure of provinces and communes as the result of the increase in salaries	...	...	...	17.2
(c) Legal share of provinces and communes in the increase in income tax and turnover tax, amounting to 4.5 milliards	...	...	...	3.975

 24.875

TOTAL EXPENDITURE for 1922 123.875

Balance :

Milliard
Marks.

Total receipts for 1922 194.700

Total expenditure for 1922 123.875

SURPLUS 70.825

REMARKS.

1 and (a) The increase in salaries was necessitated by the continual increase of prices in the interior, especially those of food-stuffs. Between October, 1921, and March, 1922, the index figures of the Commonwealth increased from 1,146 to 2,302, these figures being based on the cost of food, heat, light and lodging, but not on that of clothing. During April, 1922, these figures rose to 2,770, and at the end of April amounted to 3,175.

2. The increase in expenditure is the result of the general increase in prices.

3. As a result of the increased cost of living, it has been necessary to increase the pensions of war veterans in the same way as the salaries of officials and clerks.

4. " Mutual policy holders " (Sozialrentner) are persons drawing an income by virtue of mutual insurance laws. It has been necessary to increase the incomes to compensate for the interior depreciation of the mark. Since the reserve funds derived from the insurance premiums are insufficient for this purpose, owing to the depreciation of the currency, the Commonwealth has been obliged to increase its share in the payment of insurance.

5. " Persons dependent on small incomes " (Kleinrentner) are persons unable to work, who depend on incomes from small savings. Their economic situation is similar to that of the mutual policy holders.

(b) The circumstances which have compelled the Commonwealth to increase salaries impose corresponding burdens on the provinces and communes in regard to their officials; in view of the fact that the most important taxes are reserved for the Commonwealth and that the provinces and communes are therefore unable to cover these expenses by their own means, a part of the expenditure arising from the increase of salaries is incumbent on the Commonwealth.

II.

EXECUTION OF THE PEACE TREATY.

(Expenditure and cover.)

EXPENDITURE.

According to the 1922 draft Budget for the execution of the Treaty of Versailles, published at the end of January, 1922, the expenditure amounted :

	Milliard marks.
In the Ordinary Budget, to	147.687
In the Extraordinary Budget, to	39.844
	187.531

Milliard
marks.

This estimate was based on the London Schedule of Payments and on a rate of exchange of 45 paper marks to one gold mark. As a result of the note from the Reparation Commission of March 21, 1922, a new draft budget for the execution of the Treaty of Versailles was prepared at the end of April, 1922, on the basis of the rate of 70 paper marks to one gold mark. Although the sums required for the payment of reparations were less than those set down in the Schedule of Payments, the expenditure, according to the new draft, and on account of the depreciation of the currency, amounted :

In the Ordinary Budget to	163,159
In the Extraordinary Budget, to	63,310

The following is an itemized statement of these expenditures :

(a) General reparation expenses ...	151.900
(b) Costs of the armies of occupation	5.219
(c) Costs of the Interallied Commissions	1.343
(d) Deliveries under the Treaty of Versailles, exclusive of costs of reparation	25.005
(e) Costs of clearing operations ...	32.000
(f) Interior expenditure in respect of the execution of the Treaty of Versailles	11.002
	226.469

Recent calculations permit of the following reductions :

Costs of occupation (see chapter 2, section 2 of the Ordinary Budget and item b of the above list)	1.000
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It may be assumed that the estimates amounting to 5.2 milliard will not be required in their entirety in view of the negotiations now proceeding in connection with the interior costs of occupation.

Restitution and substitution deliveries of livestock (see chapter 6 of the Extraordinary Budget and letter d of the above list)	6.000

Carried Forward ...	7.000	226.469
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Milliard
Marks.

Brought forward ... 7.000 226.469

Taking April expenditure as a basis, it may be assumed that the total expenditure for the financial year 1922 will amount to 4 milliard. The total of 10 milliard (included in the 25,005 milliard referred to above) may therefore be reduced by 6 milliard, that is, to 4 milliard.

Restitution and substitution deliveries of material (chapter 7, section 2, letter 1 of the Extraordinary Budget and letter d of the above list) ... 1.500

As a result of the decision adopted by the Reparation Commission on May 5, 1922, No. 31, Pr. 1., the figure of 3 milliard (included in the 25,005 milliard) may be reduced by 1.5 milliard, that is, to 1.5 milliard.

Miscellaneous expenditure in connection with the execution of the Treaty of Versailles (chapter 8 of the Extraordinary Budget and letter d of the above list) ... 5.000

According to recent information, it may be estimated that, during the financial year 1922, only 5 milliard will be required instead of 10 milliard (included in the 25,005 milliard).

The reduction in requirements is	_____	
therefore	13.500	
	_____	212.969

Balance of requirements :

According to Part I. of this memorandum the amount available to cover this balance is		70.825
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There is therefore a deficit of		142.144
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In considering this deficit, it must be noted that :

1. For obvious reasons, a fairly large portion of the sums provided for the payment of deliveries in kind will not be spent.

2. Inter alia, the following sums are provided to meet expenditure in gold :

(a) Reparation payments in cash	...	50.4
(b) Costs of the Clearing Offices, exterior service only		31.2
(c) Expenditure in connection with the Inter-Allied Commissions		1.943
Total		82.943

3. The sum of 11.002 milliard under the head of estimated expenditure (letter *f* in the above list, internal expenditure on account of the execution of the Treaty of Versailles), includes the sum of 5 milliard which will not be spent in cash. This refers to permission to issue certificates and Treasury bonds (see Chapter 7, Section 5, of the Extraordinary Budget), the redemption of which, in so far as it is to be effected during the financial year 1922, would be ensured by a special item of 1.5 milliard provided in Chapter 5, Section 8, letter *c* of the Ordinary Budget.

III.

FINAL OBSERVATION.

The Draft Budget provided for the following extraordinary expenditure :—

	Milliard Marks.
(a) General administration of the Commonwealth	8.110
(b) Railway Service	16.986
(c) Postal Service	2.456
Total	22.552

In view of the depreciation of the currency and in proportion to the invested capital of the public services, these sums are unimportant. In the railway service it is mainly a question of increasing the rolling stock in the proportion rendered necessary by the war and the Treaty of Versailles.

The German Government has examined the possibility of exercising still further economy in the fiscal year 1922. It will be possible to do this in the general administration of the Commonwealth in so far as relief to the unemployed will diminish as the result of the unemployment insurance law, unless changes in the economic situation bring about an increase in the number of the unemployed. In the railways it is estimated that 3 milliard will be saved by greatly reducing the contemplated constructions and purchases.

LETTER FROM THE CHANCELLOR OF THE COMMONWEALTH TO THE REPARATION COMMISSION.

Berlin, May 30, 1922.

The Chancellor of the Commonwealth.

To the Chairman of the Reparation Commission.

In continuation of its Note of May 28, 1922,⁽¹⁾ the German Government has the honour to inform you that :

As it has already stated in its Note of May 9, 1922,⁽²⁾ the German Government has not been able to comply with the request of the Reparation Commission to create new taxes to the amount of 60 milliard. It has laid before the Reichstag a Bill on the issue of a forced loan, the proceeds of which are to be used to cover the deficit in the Budget, exclusive of the requirements of the Public Services, and which will take the place of the additional fiscal returns requested. The rate fixed for compulsory subscriptions is such as to ensure a return of 60 milliard marks from the forced loan. By special provisions, given in detail in the Annex, it has been prescribed that the greater part, that is, an amount estimated at 40 milliard marks, of the sums subscribed to the forced loan will be paid in 1922.

(Signed) WIRTH.

GERMAN FORCED LOAN IN 1922.

1. General.

In virtue of paragraph 1 of the law regarding changes in the financial system of April 8, 1922 (*Official Gazette*, p. 335), which provides for the issue of a forced loan to the amount of one milliard gold marks and free of interest for the first three years, the Commonwealth Government has immediately drafted a bill for this loan. The Bill has already left the Reichsrat and is at present waiting to be passed by the Reichstag as required by the Constitution.

2. Form of the Bill.

The forced loan is by its very nature partly a loan and partly a tax. The Bill drafted by the Government of the Commonwealth partakes more of the nature of a tax. The loan must be subscribed at the rate of 100 per cent., although it is already certain that it cannot remain at this rate. For the first three years it is free of interest and the rate will never exceed 4 per cent. The Government of the Commonwealth may effect amortisation either by repurchase at the Stock Exchange rate or by redemption at the

⁽¹⁾ See page 129.

⁽²⁾ See page 128.

nominal value; as the rate quoted for the forced loan will shortly be considerably below par, this involves a heavy sacrifice on the part of the persons concerned. No provision is made for subscription by the Reichsbank or by the Reichsdarlehnskassen, nor for any preference in the matter of the rate of interest. The extent of the obligation to subscribe is in accordance with the amount of capital on December 31, 1922, as established under the law for a tax on capital of April 8, 1922. The rate is likewise graduated according to the amount of capital up to 10 per cent. and means a considerable additional burden in view of the other heavy burdens of income tax, tax on capital and Notopfer disbursements.

3. *Provision for returns in 1922.*

The assessment of the forced loan cannot be completed before the spring of 1923, in view of the fact that it has to be based on the capital as on December 31, 1922. On the other hand, most of the forced loan must be collected in 1922. Provision is therefore made for an advance subscription. Every person liable to subscription has to estimate the amount due from him during October, 1922, and to pay the amount of forced loan required on the estimated capital by November 1, 1922, at the latest. The necessary regulations and instructions will be issued in time to allow of this advance estimate of the part of those liable to subscription. A correct estimate is secured by the following means: In the event of too low an estimate wilfully given by the subscriber, the latter must pay a tax amounting to 70 per cent. of the difference between the first payment and the amount finally subscribed to the forced loan, if the capital as finally ascertained exceeds the estimate by more than a quarter. In this way it is reckoned that 40 milliard will be subscribed to the forced loan during 1922.

23.

LETTER FROM THE REPARATION COMMISSION TO THE CHANCELLOR OF THE REICH.

Reparation Commission.

May 31, 1922.

The Reparation Commission.

To Dr. Wirth, Chancellor of the Reich.

The Reparation Commission has the honour to acknowledge the receipt of the Chancellor's letter of the 28th instant on the subject of the steps taken and to be taken by the German Government to comply with the conditions attached by its letters of March 21

and April 13 to the provisional postponement of a portion of the sums due during 1922 under the Schedule of Payments, and to transmit herewith a copy of its Decision No. 1976 *a* of this day's date confirming the provisional postponement in accordance with the procedure indicated in the last paragraph of its Decision No. 1841 of March 21.

In view of the importance of an immediate decision upon the question of the postponement, the Commission has felt justified— notwithstanding the fact that several points in the letter under acknowledgment require further elucidation—in taking the above Decision forthwith, leaving the question which it considers still outstanding to be dealt with later in the manner indicated in the text of the Decision.

A further communication dealing with these matters will be addressed to the Chancellor at an early date.

(Signed) DUBOIS.
JOHN BRADBURY.
SALVAGO RAGGI.
BEMELMANS.

DECISION No. 1976 *BIS*.

May 31, 1922.

The Reparation Commission has carefully considered the letter of the German Chancellor of May 28 explaining the progress which has already been made and the further steps which the German Government undertakes to take towards satisfying the conditions laid down by the Commission in its letters of March 21 and April 13 on the subject of the partial postponement of payments due during 1922 under the Schedule of Payments.

While regretting that the German Government did not begin to take these steps at an earlier date and having regard to the explanations given by the German Government, the Commission recognises that the action already taken by the German Government and the further measures which it undertakes constitute a serious effort on its part to meet the Commission's requirements. It accordingly decides to confirm the provisional postponement granted on March 21 of a portion of the payments due under the Schedule of Payments in respect of the year 1922, which will therefore become definitive for the year 1922 as from June 1 in accordance with the last paragraph of the Commission's decision No. 1841 of March 21, 1922.

The Commission takes note that the details of several of the arrangements proposed for satisfying the conditions laid down by the Commission still remain to be worked out by the German Government and the Committee of Guarantees in consultation. It also observes that the proposals for dealing with the floating debt

are regarded by the German Government as practicable only in the event of Germany being able to obtain reasonable assistance by way of a foreign loan.

The Reparation Commission recalls that the postponement now confirmed remains liable to be cancelled at any time in accordance with the last paragraph *in fine* of decision No. 1841, if the Commission is subsequently satisfied that Germany has failed to carry out the conditions laid down. Without prejudice to the generality of its powers under that paragraph the Commission expressly reserves its right to cancel the postponement if at any time it becomes dissatisfied with the progress made in the settlement of the matters still outstanding or, if in the event of Germany, through being unable to obtain the desired assistance by way of a foreign loan, failing to carry through the arrangements in regard to the floating debt specified in the Chancellor's letter of May 28, 1922, alternative arrangements satisfactory to the Commission are not arrived at for dealing with the Budget deficit and the floating debt.

24.

LETTER FROM THE REPARATION COMMISSION TO THE CHANCELLOR OF THE REICH.

REPARATION COMMISSION.

June 14, 1922.

The Reparation Commission.

To: The German Government.

In its letter of May 31, 1922, to the Chancellor, the Reparation Commission stated that several points in the Chancellor's letter of May 28 required further elucidation, and that a further communication dealing with matters still outstanding would be addressed to the Chancellor at an early date.

Accordingly, the Commission has the honour to make the following communication to the German Government.

It has already been settled that the details of the arrangements proposed for dealing with the following questions will be the subject of deliberations with the Committee of Guarantees:

1. Supervision of the receipts and expenditure of the Reich.
2. Abusive Export of Capital.
3. Statistics.

The Commission will accordingly await the result of the deliberations of the Committee of Guarantees with the German Government on these points.

Apart from these questions, there remain the following matters still to be dealt with :

Forced Loan.—The Commission has the honour to acknowledge the receipt of the Chancellor's letter of May 30.

The Commission understands that all arrangements will be made in due time for the receipts collected in this respect before January 1, 1923, to reach the minimum figure of 40 milliard.

Deficit of Public Service Budgets.—The Commission wishes to point out that the draft budget submitted to it makes no provision for supplementary receipts to cover the deficit in the public services.

It is true that in the Chancellor's letter of May 28, the following passage occurs :

" The subsidies to public services are abolished. In 1922 the expenditure provided to reduce the price of foodstuffs amounts to only 950 million as against 1½ to 2 milliard in 1921. The other subsidies and grants have been abolished in so far as existing obligations allowed and in so far as it was possible to modify the administrative organisations. Other expenses have also been abolished. By these means the expenditure provided for in the 1922 budget is 24.5 milliard less than that in the 1921 budget.

" As will be seen from the final observations in the enclosed table, the extraordinary budgets of the general administration and of the public services contemplate economies amounting in all to at least three milliard marks."

No mention, however, is made of ways and means to cover the extraordinary expenditure of these services, which for the railways amount to 16,986 million and for the postal service to 2,534 million. The Reparation Commission awaits definite proposals from the German Government in regard to this question.

Autonomy of the Reichsbank.—The Reparation Commission notes the Chancellor's assurance that the Law of May 25, 1922, secures the complete independence of the Reichsbank. It recognises that this Law withdraws from the Government the right of direct intervention in the conduct of the operations of the Bank, which it derived from the Law of 1875.

In order, however, to secure real independence of action it is necessary not only that the Bank should be independent qua institution, but that its personnel should also be independent.

The Commission assumes that the rights of the Government in regard to the nomination of the Chairman and Members of the Board of the Direction are limited to a simple veto on appointments and that entire liberty of choice will be left to the shareholders or their representatives.

It attaches much importance to this and indeed would prefer to see the veto confined to the selection of the Chairman only.

The Commission is further of opinion that the Chairman should invariably be selected from the existing members of the Board of Direction.

The provisions of the new Law are not very clear in these respects, and the Commission would be glad to receive from the German Government an assurance that they will be applied in the manner indicated above.

Further, as regards the remuneration of the personnel of the Bank, all questions of the salaries to be given to individuals should be left to the shareholders' representatives.

While the Commission does not insist on the immediate introduction of a further law to place these points beyond doubt if the German Government will undertake that the existing law will be applied administratively in such a way that the objects which the Commission has in view are secured, it reserves the right to ask for further legislation should experience show it to be necessary.

The independence of the Reichsbank, however, even when made complete in the manner above indicated, will only be of practical utility for the purpose of safeguarding German currency and credit, if it can be effectively used to secure that loans by the Reichsbank to the Government are made only in accordance with sound banking principles.

So long as the Reichsbank is permitted to issue notes against Treasury Bills an effective exercise of its autonomy in this connection can scarcely be looked for.

The Commission recognises that any limitation of the fiduciary circulation must be preceded by the covering of the public expenditure by real receipts from taxation or internal loans without recourse to the issue of Treasury Bills discounted directly or indirectly by the Reichsbank, and that it would be premature at the present moment to attempt to re-establish purely and simply the limitation of the note issue abolished by the Laws which have been voted since 1914 in amendment of the Law of 1875, without having first put the State finances in order. But the Commission is of opinion that the German Government should forthwith take in hand the preparation of the measures which will have to be introduced at a later stage to re-establish a reasonable limitation of the right of issue of the Bank, and that it should set itself resolutely to the task of applying them progressively as soon and as quickly as circumstances permit.

Failing such action, there is great danger that the sacrifices which the German people are being called upon to make to check the expansion of the floating debt will fail to realise the end in view.

(Signed)

DUBOIS.

JOHN BRADBURY.

LÉON DELACROIX.

SALVAGO RAGGI.







